New Labour, the Coalition and Post-Crisis British Capitalism

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Contents

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List of Abbreviations

ABI	Annual Business Inquiry
ABW	Asset Based Welfare
ALGM	Anglo-Liberal Growth Model
AS	Accumulation System
ASHE	Annual Survey of Hours and Earnings
BIS	Department for Business, Innovation and Skills
BOE	Bank of England
BRT	British Regulation Theory
CBI	Confederation of British Industry
CME	Coordinated Market Economies
CPI	Consumer Price Inflation
CSR	Comprehensive Spending Review
DTI	Department of Trade and Industry
DWP	Department of Work and Pensions
ECB	European Central Bank
ERM	Exchange Rate Mechanism
FDI	Foreign Direct Investment
FSA	Financial Services Authority
GFC	Global Financial Crisis
IFS	Institute for Fiscal Studies
IMF	International Monetary Fund
LME	Liberal Market Economies
MEW	Mortgage Equity Withdrawal
MPC	Monetary Policy Committee
MSR	Mode of Social Regulation
NHS	National Health Service
OBR	Office for Budget Responsibility

ONS	Office for National Statistics
PKT	Privatised Keynesianism Thesis
QE	Quantitative Easing
QPSE	Quarterly Public Employment Survey
ROA	Regime of Accumulation
RPI	Retail Price Inflation
SIC	Standard Industrial Classification
SPERI	Sheffield Political Economy Research Institute
TUC	Trades Unions Congress
VNA	Variegated Neoliberalisation Approach
VOC	Varieties of Capitalism
WTD	Working Time Directive

Abstract

The core objective of this thesis is to examine the extent to which Britain's model of capitalism in the aftermath of the 2008 financial crisis represents a continuation of - or a rupture with - the model of capitalism which had been in place throughout the pre-crisis conjuncture. In order to answer this question, the thesis critically engages with a body of literature which argues that Britain's economy has been underpinned by a 'finance-led' growth model. It then advances a comparative analysis of the political-economic strategies which were deployed by the New Labour and Coalition governments in the pre- and post-crisis conjunctures respectively. The core argument is that whilst the Coalition effectively re-established the conditions for a renewed wave of finance-led growth in Britain - albeit after a transitionary period and in a modified form - it effectively broke with the legitimation strategy which New Labour had deployed in the pre-crisis conjuncture. As such, it is argued that the Coalition re-embedded a series of structural weaknesses into the emergent framework of post-crisis British capitalism.

1. Introduction

The period since the 2008 global financial crisis (GFC) has been one of both marked continuity and profound change. Contrary to the expectations of some commentators, the GFC did not lead to the decline of the market liberal order which had been ascendant across the West since the early 1990s (Cox, 1992; Rosenberg, 2005). Rather, trends which had become established throughout the pre-crisis conjuncture – high levels of wealth and income inequality, the rise of the financial sector, sustained bouts of regressive labour market and welfare restructuring – either persisted or intensified across many advanced capitalist states. At the same time, a range of unorthodox policy instruments and novel forms of state intervention emerged throughout this period. For example, central banks engaged in sustained programmes of 'loose' monetary policy as they attempted to boost private sector lending and to ward-off the threat of deflation. From March 2009, the Federal Reserve and the Bank of England (BOE)[1] initiated a huge programme of Quantitative Easing (QE) whilst interest rates were held at historic lows for an unprecedented period of time (Hale & McCrum, 2016; Joyce, et al., 2012).[2] Despite these efforts, low growth and the danger of deflation remained as enduring threats to the advanced capitalist order (Gamble, 2014: 20). Whilst the policy tools utilised to manage this stagflationary context were highly unorthodox, the *objectives* of post-crisis economic policy - to re-establish market discipline and to facilitate private sector-led expansion – were entirely in line with the prevailing pre-crisis orthodoxy.

The extent to which these dynamics were in evidence of course varies across different national economies. This thesis examines processes of continuity and change in the post-crisis conjuncture within one national state in particular: the United

[1] And belatedly the European Central Bank (ECB).
[2] At the time of writing (August 2016) the Bank of England had cut interest rates further to 0.25 per cent.

Kingdom (UK). In the case of the UK, we can identify three distinct phases of development which were in place before and after the GFC. First, between September 1992 and the 2008 crash, the British economy underwent a phase of relatively sustained and stable economic expansion. During this period, unemployment fell, inflation remained low and economic output expanded at a steady annual rate (King, 2003). At the height of this expansionary period, political elites from across the UK regularly claimed that the British economy was an exemplar which other countries would do well to emulate. In particular, they argued that Britain's liberalised market economy demonstrated how economic dynamism and sustained non-inflationary growth could be secured under conditions of globalisation. For example, in 2006, the then-Chancellor of the Exchequer, Gordon Brown, infamously proclaimed that 'boom and bust' had been effectively abolished under his watch. Tight counter-inflationary policy, 'light touch' regulation of the financial services sector, labour market flexibilisation and 'prudential' macroeconomic management had produced, he claimed, a period of sustained and apparently stable economic expansion within Britain.

With the 2008 GFC, this phase of economic expansion came to an abrupt halt. From March 2008, the UK entered the deepest economic downturn which it had experienced in the post-war period. Subsequently, it very narrowly averted a 'double dip' recession in 2012. Economic growth throughout this period was consistently low. For example, between September 2010 and April 2013, GDP increased by just 0.8 per cent in total (Blanchflower, 2013). As a result, the period which followed the 2008 crash was described by the UK's statistical authority as "the sharpest downturn and slowest recovery on record" (ONS, 2015b: 1). This phase of protracted economic stagnation had a profound impact on the structure of the British economy. Between 2008 and 2013, productivity growth flat-lined, as the UK recorded its worst productivity performance in over 45 years (Jones, 2013: 2). Private investment fell by 10.5 per cent between 2010 and 2013 (Lee, 2015: 23), whilst public investment simultaneously collapsed by 40 per cent (Van Reenen, 2015: 3). On average, real wages fell by 10 per cent between 2008 and 2015, meaning that the UK experienced the largest real terms wage cut of any European economy with the exception of Greece (TUC, 2016). At the same time, attempts to eliminate the budget deficit – the annual amount of borrowing required to finance the difference between government revenues and expenditure – were consistently frustrated due to weak tax receipts and lower than expected economic growth. Sixteen years of economic 'boom' were followed – contrary to the expectations of New Labour's 'Iron Chancellor' – by the largest 'bust' which the British economy had experienced since the Great Depression.

However, throughout the latter half of the 2010 to 2015 parliament, it appeared that the British economy had finally entered into a phase of economic recovery. By the spring of 2013, relatively strong GDP growth became established once again, registering at 1.7 per cent in the second quarter of this year. This increase was then sustained for eight successive quarters, such that by April 2015 GDP per capita finally returned to its pre-crisis peak (ONS, 2015a: 6). On a range of headline economic indicators, the British economy began to strongly out-perform many comparator states within the European Union (EU). For example, employment increased markedly – the Coalition government claimed by around 2 million – making Britain, in the words of the Prime Minister David Cameron, the 'jobs factory of Europe' (Cameron, 2015). By 2015, the budget deficit - although not abolished as had been initially promised by the Chancellor George Osborne – had been reduced by half. Confidence seemed to be returning to the British economy, as consumer spending increased and business investment began to pick-up. After half a decade of relative stagnation, the British economy had returned – or so it was claimed – to a renewed wave of economic expansion and private sector-led growth.

Research Questions and Conceptual Framework

As the above account suggests, it is possible to periodise the development of British capitalism in terms of three distinct phases in the run-up to and in the aftermath of the GFC; a period of sustained economic growth (1992 – 2008), a phase of prolonged economic stagnation (2008 – 2013) followed by the emergence of a putative economic recovery (2013 – 2015). These three phases of development provide the temporal backdrop to this thesis. Throughout, the first phase of development will be referred to as the *'pre-crisis conjuncture'* whilst the second and third phases will be referred to as the *'post-crisis conjuncture'.* The core objective of this thesis is to determine the extent to which Britain's model of capitalism in the post-crisis conjuncture embodied a *continuation of* or a *rupture with* the model of capitalism which had been in place throughout the 'pre-crisis conjuncture'. In order to answer this research question, it is necessary to reflect on four further issues:

1. How might we conceptualise continuity and change in advanced capitalist societies?
2. What form did British capitalism assume in the pre-crisis conjuncture?
3. What form did British capitalism assume in the post-crisis conjuncture?
4. To what extent did these two regimes of capitalist development resemble or differ from one another?

The extent to which institutional or policy change can be identified of course depends on which policy area or institutional complex one isolates in ones' analysis (Marsh, 2010: 228). Insofar as the existing literature has attempted to examine continuity and change in Britain in the post-crisis period, there has been a tendency to focus on a range of distinct policy spheres in relative isolation from one another. For example, existing research has examined *inter alia* reforms to Britain's post-crisis financial regulatory architecture (Baker, 2013; Bell & Hindmoor, 2015), changes to social policy and public service provision (Grimshaw & Rubery, 2012), and shifts in the strategic positioning of political parties under conditions of fiscal austerity (Hayton, 2013). Whilst these approaches offer valuable accounts of continuity and change in this period, this thesis advances an analysis of post-crisis British capitalism from a different perspective. Specifically, it deploys a conceptual framework which seeks to identify the ways in which seemingly disparate spheres of social activity are in fact embedded within – and are in turn constitutive of - emergent, relatively unified and integrated *regimes* of capitalist development. This approach is broadly in line with the understanding of political economy as advanced by Andrew Gamble and his collaborators, who propose that, "social orders and the institutions which make them up need to be studied as *complex wholes* rather than as analytically distinct parts" (cited in: Clift, 2014: 5). This commitment to studying the political economy *holistically* requires that we deploy a conceptual framework capable of moving beyond analysis of distinct policy areas studied in isolation from one another. Rather, we must advance a theoretical framework which can identify the emergent properties and underlying tendencies of a given social and economic order.

Within political economy, a number of approaches have been advanced with this basic objective in mind. For example, comparative institutionalists have attempted to map the distinct 'varieties' or 'models' of capitalism which are in evidence across Western nation states (Albert, 1993; Coates, 2001; Ebenau, et al., 2015; Hall & Soskice, 2001). These approaches draw attention to the ways in which distinct national institutional configurations can give rise to divergent logics of economic development which tend to endure over time. Other approaches of a 'regulationist' orientation have attempted to distinguish between distinct 'regimes of accumulation' whereby underlying economic models become embedded within and effectively stabilised by complementary institutional forms (Aglietta, 1976; Boyer, 1990; Jessop & Sum, 2006; Overbeek, 1989). In each case, the objective is to transcend a narrow focus on distinct policy areas in order to identify the underlying social, economic and institutional mechanisms which give rise to relatively coherent patterns of capitalist development over time.

In this vein, this thesis draws-upon and develops a literature which emerged in the aftermath of the 2008 crisis which I term the *growth model perspective* (Crouch, 2009; Finlayson, 2009; Hay, 2010; Watson, 2010; see also Engelen et al., 2011). This literature argues that although the British economy generated (seemingly) stable economic growth throughout the pre-crisis conjuncture, it simultaneously incubated a series of deep structural weaknesses and internal imbalances which rendered it peculiarly exposed to the 2008 GFC (Hay & Payne, 2015; Hay, 2013c). Specifically, advocates of this growth model perspective argue that British capitalism had been underpinned by a distinctive – and ultimately unsustainable - *finance-led growth model* throughout the pre-crisis conjuncture (Baker & Widmaier, 2014; Berry, 2013a; Crouch, 2009; Hay, 2013b; Montgomerie & Büdenbender, 2015) At its core, this growth model rested upon relative real wage stagnation, financial market liberalisation and asset-price inflation. This gave rise to a situation whereby economic growth became increasingly tied to rising levels of private indebtedness, debt-fuelled consumption and persistent current account deficits (Crouch, 2011; see also Engelen et al., 2011; Hay, 2013c; Stockhammer, 2013). In contrast to dominant narrations of the crisis – which argued that the crash was caused primarily by 'profligate' borrowing on the part of the New Labour government – the growth model perspective argues that the large increase in Britain's budget deficit and public debt levels were *symptoms* of a deeper failure; namely the country's over-reliance on expanding levels of private debt and on economic activity concentrated in and around the financial services sector (Hay, 2013c; see also Streeck, 2014a).

As will be argued in Chapter Two, the growth model perspective provides us with a good framework through which to identify and analyse the mechanisms which underpinned British capitalism throughout the pre-crisis conjuncture. However, the approach is also limited in a number of respects. In particular, the growth model perspective tends to privilege analytically those forms of state intervention which were 'functional' to – or in other words actively facilitated – the financialisation of the British economy throughout the pre-crisis conjuncture. For example, insofar as the growth model perspective acknowledges a role for the state at all, it tends to focus exclusively on those governmental interventions which encouraged finance-led expansion either through macroeconomic policy or through cultivating the emergence of 'financialised subjectivities' amongst citizens (Finlayson, 2009; Langley, 2007; Watson, 2010). As a result, the growth model perspective deploys a highly *limited conception of the state* which fails to account for the ways in which government actors are typically oriented towards securing a range of divergent – and often incompatible – social and political objectives. For example, between 2000 and 2008, Britain's finance-led growth model was flanked by the largest real terms increases in expenditure on public services in the post-war period (Smith, 2014: 618). This expansion in public spending helped to stabilise British capitalism in a variety of ways, not least through increasing levels of public sector employment and in sustaining aggregate demand in regions which would otherwise have been excluded from the dominant growth dynamic (Coutts et al., 2007). However, these developments are *not* reducible to the 'logic' of Britain's finance-led growth model. They were the outcome of a range of social and political pressures and strategic considerations on the part of state actors. The growth model perspective – in its current form – is not sufficiently developed to grasp these dynamics.

As such, one core conceptual contribution of this thesis – outlined in Chapters Two and Three – is to reformulate the growth model perspective so that it incorporates a more robust theory of the state. In general terms, advanced capitalist states are typically driven to simultaneously secure two related – but often contradictory - objectives. First, they must secure the conditions for continued *accumulation* over time

(Offe, 1984). Advanced capitalist states are formally separated from the economy in the sense that there are certain (socially determined and often legally codified) limits on the extent to which government can intervene within the 'private sphere' of economic activity. This means that the capitalist state is in essence a *tax state* (Gamble, 2014; O'Connor, 1973). If it is to perform its core functions – for example to provide basic services or to maintain social order – it must ensure that the conditions for continued taxable economic activity are in place (Gough, 1985). On the other hand, state managers must at the same time secure the conditions for continued *legitimation.* This means that government actors – in particular those who operate within the political constraints of the modern democratic state form – are not exclusively concerned with securing continued economic growth. Nor do they 'automatically' secure the reproduction requirements of capital as is claimed in some crude structuralist accounts (Althusser, 2014). Rather, policymakers are persistently driven to engage in patterns of state intervention which are oriented towards securing a certain degree of popular support within society. These dual accumulation/legitimation imperatives can in certain conditions complement one another. However they can also conflict.[3] The analytical implication of this is that analysis of advanced capitalist state interventions should not – as is the case with the growth model perspective – focus narrowly on the ways in which the state can (and typically does) actively facilitate the emergence and consolidation of particular growth models over time. Rather, analysis should also interrogate the ways in which the state is typically oriented towards securing other social and political objectives, including the need to secure legitimation over time. In turn, analysis should account for how these alternative patterns of interventions can either stabilise or compromise the developmental logic of the dominant growth model.

[3] To take one example, it may be the case that within a deflationary period a rapid expansion in infrastructure spending will help to boost employment and economic growth. In turn, this could help to secure the legitimacy of the government in the eyes of the electorate. However, if certain fractions of capital – in particular the financial sector – fear the inflationary potential of such policy action, they may agitate for continued retrenchment and constraints on capital spending. The question then becomes how the state manages and contains social disruption in this context.

It is here where the thesis makes a break with the growth model perspective in its current form and offers an alternative conceptual framework for tracing the evolution of British capitalism throughout the pre- and post-crisis conjunctures. The existing growth model perspective focuses on what could be termed the *accumulation strategy* pursued by state managers throughout the pre-crisis conjuncture (Jessop, 1990: 216). In other words, it identifies how state intervention throughout this period actively encouraged the development of certain economic sectors and 'financialised' subjectivities over others. However, this means that the *legitimation strategies* – or in Gramscian terms the 'hegemonic projects' – advanced by actors operating within the state remain relatively neglected in the analysis. However, the result is that the growth model perspective systematically neglects the ways in which core state functions – such as its capacity to impose tax liabilities or to increase social expenditure – are typically deployed in order to secure the support of strategically significant social groups. It also means that the growth model perspective misses the ways in which these forms of state intervention can 'flank' and stabilise a given growth model without, however, being reducible to the logic of that growth model. The thesis therefore argues that this second form of state intervention – the capacity of policymakers to deploy a range of legitimation strategies in order to secure broad-based support – should be explicitly integrated into the existing growth model perspective. This improves on the existing literature in three ways. First, it offers a more compelling account of how phases of capitalist stability can be secured within a given conjuncture. Second, it allows us to distinguish analytically between forms of state intervention oriented towards facilitating the expansion of a given growth model and forms of state intervention oriented towards securing a popular base of support within society. Third, it allows us to trace and periodise *continuity and change* across different phases of capitalist development in terms of the accumulation and legitimation strategies deployed by state managers (Jessop & Sum, 2006; Jessop, 1990). This reformulated 'growth model' perspective provides us with the conceptual framework around which the subsequent empirical chapters of the thesis are organised.

Core arguments of the thesis

The empirical chapters of the thesis seek to answer the further three research questions outlined above. These are 'what form did British capitalism assume in the pre-crisis conjuncture?', 'what form did British capitalism assume in the post-crisis conjuncture?', and 'to what extent did these two regimes of capitalist development resemble or differ from one another?' The conceptual framework outlined above[4] allows us to specify a little more concretely how each of these questions might be answered. As outlined above, a core proposition of this thesis is that the *state* remains a crucial site through which advanced capitalist development is shaped, regulated and sustained over time (Cerny, 1997; Forde & Slater, 2016; Jessop, 2002b). Indeed, in the post-crisis conjuncture, the massive programme of government-led bank recapitalisation and the implementation of 'loose' monetary policies underlined the enduring – and arguably increasing – importance of the state in shaping and sustaining advanced capitalist development (Green & Lavery, 2015). However, the state does not 'automatically' reproduce the conditions for continued capital accumulation. Similarly, there is no guarantee that state interventions will be 'functional' to the requirements of a given growth model (Jessop & Sum, 2006). Rather, state interventions are in essence *contingent interventions* in the sense that they involve moments of strategic agency on the part of government actors. As a result, we should not think of economic policy as driven by 'exogenous' forces or by 'non-negotiable' constraints imposed on state managers (Hay, 2002a; Watson & Hay, 2003). Rather, state interventions in the economy typically involve *strategic* choices which emerge as the result of political calculation. To take one example, in 2010 the newly-formed Coalition government

[4] This conceptual framework is developed at greater length in Chapters Two and Three.

claimed that large spending cuts were inevitable given the size of Britain's budget deficit. Any other approach – Osborne claimed – would lead to 'ruin' as international creditors would punish the British government through capital flight. However, a number of indicators suggest that this was not the case. To take one example, bond yields – the rate of interest which governments pay on their borrowing – were at historic lows throughout this period. Accordingly, the government could have chosen to engage in an expansionary fiscal policy at next to no additional cost in order to increase growth and employment and to reduce the budget deficit through increasing tax revenues. However, for primarily *political* – and therefore contingent – reasons, they chose not to (Gamble, 2014). The crucial point is that the state is an institutional site within which *agency* can be exercised, albeit within a context which tends to privilege certain strategies over others (Bertramsen, et al., 1991; Hay, 1996b; Jessop, 1990; Jones, 2002).

This has important implications for our analysis of the 'pre-crisis' and 'post-crisis' conjunctures. The approach taken in each case will be to identify the ways in which policymakers sought to simultaneously secure continued economic growth whilst maintaining their governing legitimacy. This means that the *pre-crisis conjuncture* will be understood in relation to the strategic orientation of the New Labour government which was in office at the time. Particular attention will be drawn to the ways in which New Labour pursued a particular *accumulation strategy* as well as a distinctive *hegemonic project* over this period. In turn, it is argued that this gave rise to a distinctive 'hybrid' regime of development throughout the pre-crisis conjuncture in Britain. Similarly, the *post-crisis conjuncture* will be analysed in relation to the strategic priorities and political positioning of the Coalition government. In particular, the focus will be on the ways in which the Coalition deployed a range of distinctive *accumulation and legitimation strategies* throughout the post-crisis conjuncture. These chapters then provide us with a framework through which to examine the extent to which post-crisis

British capitalism embodied a *rupture with* or a *continuation of* the regime of development which had been established in the pre-crisis conjuncture. In light of these considerations, four key interrelated arguments will be advanced throughout this thesis. These are outlined below.

1. *New Labour established a 'hybrid' regime of social and economic development which - temporarily - stabilised British capitalism throughout the pre-crisis conjuncture*

First, in contrast to the growth model perspective, it is argued that New Labour advanced and consolidated a distinctive *hybrid* regime of social and economic development. On the one hand, New Labour's approach was underpinned by a *finance-led accumulation strategy*. In line with advocates of the growth model perspective, it is argued that the New Labour government sought to embed a model of economic development which systematically privileged the preferences of international creditor institutions whilst further advancing the financialisation of the British economy and society. On the other hand, however, New Labour's political economy was also organised around a distinctive – albeit imperfect and limited - *'One Nation' hegemonic project*. This sought to secure and extend New Labour's popular base of support by channelling material concessions and symbolic rewards to the social base. This dimension of the New Labour project was driven by a range of political considerations, including internal party pressures, electoral calculations and a residual commitment to some redistributive social goals. In accordance with this political orientation, New Labour substantially boosted spending on public services from 2000 onwards - in particular on health and education – which resulted in substantially increased levels of public sector and state-supported employment particularly across the ex-industrial regions (Tomlinson, 2012c). Additionally, this dynamic was flanked by a series of (often covertly employed) redistributive social policies which channelled resources to low-to-middle income households. These policies played a key role in reducing relative poverty, constraining the growth of income inequality and mitigating the uneven development of 'Anglo-liberal' capitalism throughout the pre-crisis conjuncture (Hay, 2013b; Joyce & Sibieta, 2013). In contrast to existing accounts of New Labour - which have tended to characterise the Blair and Brown governments as *either* 'neoliberal' or 'social democratic' (Chadwick & Heffernan, 2003; Driver & Martell, 2006a; Fielding, 2003; Hay, 1999d; Shaw, 2007) - the thesis advances the argument that New Labour established a distinctive *hybrid* regime of social and economic development which effectively – but only temporarily – stabilised Britain's model of capitalism throughout the pre-crisis conjuncture.

2. *The Coalition effectively re-established the conditions for a renewed wave of 'finance-led' growth in Britain, albeit in a modified form*

Second, this conception of New Labour's 'hybrid' regime of development provides us with a framework against which to conceptualise continuity and change under the Coalition in the post-crisis conjuncture. To this end, the evolution of the Coalition's economic programme in office is traced in order to establish the extent to which this represented a continuation of or a rupture with accumulation strategy which had been pursued by New Labour. In this regard, it is shown that from 2010 the Coalition's economic policy was underpinned by two ostensible objectives: to eliminate the budget deficit within one parliament and to 'rebalance' the British economy in favour of exports and savings. However, in each case, it is argued that the Coalition's *discursive commitment* to these principles was not matched by concrete policy interventions in office. Rather, at key strategic moments the Conservative-led government abandoned key elements of its programme in light of political calculations. The result was that by the end of the parliament, the Coalition had not substantially transformed Britain's growth model. Rather, it effectively re-established, albeit in a modified form and to a limited extent, the basic conditions for a renewed wave of 'privatised Keynesian' growth in the future. In light of this, it is argued that the Coalition continued with the basic *accumulation strategy* advanced by the New Labour government. Consequently, by 2015 it had effectively re-established Britain's pre-crisis growth model, albeit in a modified form and after a transitionary period.

3. *The Coalition deployed a distinctive 'two nations' hegemonic project which aimed to secure a limited but durable base of support for further fiscal consolidation and private sector-led recovery in the future*

Third, whilst we can identify *continuity* in the re-establishment of Britain's finance-led growth model, there was also substantial change throughout this period. In particular, the Coalition effectively broke with the legitimation strategy or 'One Nation' hegemonic project which New Labour had advanced in government. In a context of fiscal austerity and reduced tax revenues, the capacity of the Coalition to build support through channelling material concessions and symbolic rewards to the social base was highly constrained. Instead, we can identify the emergence of a distinctive '*two nations'* hegemonic project under the Coalition which sought to secure a limited but durable base of support for its governing programme. The immediate post-crisis context generated a series of relatively novel distributional trends. In particular, the incomes of non-working households were protected relative to 'in-work' households and public sector pay was protected – for a period of time – relative to private sector pay. In response to this, the Coalition successful constructed and entrenched a series of 'moralised antagonisms' between workers/working age benefit claimants and private/public sector employees. In this way, the Coalition government sought to secure a limited but durable base of support for its economic and social programme under conditions of fiscal austerity.

4. *The emergent regime of development established under the Coalition has consolidated a series of structural weaknesses and imbalances at the heart of British capitalism. These are likely to destabilise social and economic development in the future.*

Taking the above three points together, then, the core argument of this thesis is as follows: *whilst the Coalition effectively re-established the finance-led growth model which had been place throughout the pre-crisis conjuncture, it effectively broke with the legitimation strategy which New Labour had pursued in office.* This has a number of important implications. First, contrary to the initial claims of the Conservative-led Coalition, British capitalism was not fundamentally 'rebalanced' away from the finance-led growth model which had been in place in the pre-crisis conjuncture. As a result, the structural weaknesses associated with that model are likely to endure and even intensify into the future. Second, however, Britain's pre-crisis model of capitalism had been stabilised – temporarily and imperfectly – by enhanced public expenditure and state-led employment creation (particularly in the ex-industrial regions) as a result of New Labour's 'One Nation' hegemonic project. In contrast, under the Coalition these flanking mechanisms were no longer in place to the same extent by the end of the 2010 – 2015 parliament. As a result, new forms of capitalist instability, social antagonism and uneven development are likely to emerge within British capitalism in the future.

The Structure of the thesis

Chapter Two begins by engaging with a body of literature which claimed that Britain's pre-crisis model of capitalism was underpinned by a distinctive – and ultimately unstable – finance-led growth model. First, the chapter places the emergence of this growth model into historical perspective. It then reviews the literature which claims that a distinctive dynamic of 'privatised Keynesianism' came to be established in Britain throughout the pre-crisis conjuncture. It is argued that the growth model perspective is useful insofar as it identifies a series of structural weaknesses and imbalances which underpinned Britain's pre-crisis model of capitalism. However, it is also argued that the growth model perspective is limited in a number of respects. In particular, the growth model perspective in its current form cannot provide a compelling explanation of how Britain's growth model was *stabilised* throughout the pre-crisis conjuncture and it implicitly deploys a *limited conception of the state*.

Chapter Three then advances an alternative conceptual framework which overcomes the conceptual weaknesses of the growth model perspective in its current form. In particular, regulationist approaches and neo-Marxist theories of the state are drawn upon in order to advance a more compelling conception of the ways in which the state can play a key role in securing the stability of advanced capitalist economies over time. On this basis, it is argued that a useful distinction can be drawn between the *accumulation* and *legitimation strategies* deployed by state managers within different historical conjunctures. In turn it is argued that these strategies can give rise to relatively coherent regimes of development. This reformulated growth model perspective, it is argued, provides us with a framework through which we can more adequately analyse the extent to which Britain's post-crisis model of capitalism represented a *continuation of* or a *rupture with* the model of capitalism which had come to be established throughout the pre-crisis conjuncture.

Chapter Four then applies this conceptual framework and advances a reinterpretation of New Labour's political economy in the pre-crisis conjuncture. It is argued that New Labour established a *hybrid* regime of development which effectively – but only temporarily – stabilised British capitalism throughout this period. On the one hand, New Labour advanced a *finance-led accumulation strategy.* On the other hand, however, it also advanced a *One Nation hegemonic project* which channelled material concessions and symbolic rewards to subordinate social groups. It is argued that this hybrid regime of development effectively - but only temporarily - stabilised British capitalist development throughout the pre-crisis conjuncture.

Chapter Five then turns to the post-crisis conjuncture. It analyses the evolution of the Coalition's economic strategy in government and examines the extent to which this embodied a continuation of, or a rupture with, New Labour's economic strategy. The Coalition initially set itself two core economic objectives: to eliminate the budget deficit in one parliament and to 'rebalance' the British economy both sectorally and geographically. In each case, it is argued that a distinction must be made between the Coalition's *discursive positioning* on the one hand and the actual *policy interventions* which it made in office on the other. By the end of the parliament, it is argued that the Coalition had not fundamentally restructured Britain's model of capitalism. Rather, it effectively returned the British economy to the finance-led model of development which had been in place under New Labour, albeit after a transitionary period and with some minor modifications.

Chapter Six then turns to the *legitimation strategy* which the Coalition deployed in government. It is argued that whilst the Coalition effectively re-established Britain's finance-led growth model, in important ways it *broke* with the legitimation strategy which New Labour had deployed in the pre-crisis conjuncture. In particular, the Coalition pursued what is termed a 'two nations' hegemonic project. This attempts to build a limited but durable base of support by constructing and entrenching a range of 'moralised antagonisms' between distinct social groups. This claim is substantiated empirically through two case studies: through an analysis of welfare restructuring and public sector retrenchment under the Coalition. In each case, it is argued that the Coalition discursively constructed a range of novel distributional trends which emerged in the immediate post-crisis period in order to build support for its social and economic programme. In particular, this was done through entrenching a series of 'moralised antagonisms' between workers/welfare recipients on the one hand and public/private sector workers on the other.

Chapter Seven moves beyond the macro-political focus of the preceding chapters and evaluates continuity and change under the Coalition from a spatial perspective. In particular, it is argued that New Labour's hybrid regime of development resulted in a substantial increase public sector and state-led employment in the ex-industrial regions. Whilst this served to mitigate the uneven development of British capitalism throughout the pre-crisis conjuncture, the chapter then traces how this dynamic became increasingly politicised by the Coalition in office. It is argued that the Coalition's social and economic programme aggravated unevenness in two senses. First, public sector job cuts were disproportionately focussed in the ex-industrial regions. Second, the private sector jobs which 'filled in' for these losses were generally concentrated in 'low pay' sectors. As such, it is argued that the Coalition's political-economic strategy undermined one of the key regional 'flanking mechanisms' which had stabilised pre-crisis British capitalism. As a result, new forms of spatial uneven development are likely to persist or even intensify in the future.

The conclusion then summarises the core arguments of the thesis and draws-out some of its implications for future research. In particular, it re-states the core argument of the thesis: that *whilst the Coalition effectively re-established the conditions for a renewed wave of finance-led growth in Britain, it effectively broke with the legitimation strategy which New Labour had deployed in the pre-crisis conjuncture.* It is argued that this has important implications for how we might conceptualise the emergent structure of post-crisis British capitalism and its likely developmental trajectory in the future.

2. Britain's Pre-Crisis Growth Model: Value and Limitations of the 'Privatised Keynesianism' Thesis

> *Two things came together to rescue the neo-liberal model from the instability that would otherwise have been its fate: the growth of credit markets for poor and middle income people, and of derivatives and futures markets among the very wealthy. This combination produced a model of privatised Keynesianism.*
>
> (Crouch, 2011a: 114)

> *Institutional frameworks that exist in any particular society are never completely coherent. Whilst some institutional arrangements may impose a dominant logic of action, these typically co-exist with other arrangements…that embody conflicting and even contradictory logics.*
>
> (Streeck & Thelen, 2005: 19)

2.1 Introduction

This thesis contributes to a body of political economy literature which emerged in the immediate aftermath of the 2008 economic crisis in Britain. This literature argued that the financial crisis and the subsequent recession were not caused simply by regulatory failures or by 'profligate' spending on the part of the New Labour government. Instead, the 2008 crash represented the (temporary) breakdown of a distinctive *finance-led 'growth model'* which had been in place in Britain since the early 1990s (Baker & Widmaier, 2014; Crouch, 2009; Hay, 2013; Montgomerie & Büdenbender, 2014; Berry, 2013). This growth model has been given a number of different names. However, in this chapter and throughout this thesis, it will be referred to as an example of 'privatised Keynesianism' (Crouch, 2009). Although this phrase was originally coined by Colin Crouch, the concept has been explicitly drawn-upon and developed by a number of other scholars working within the broad field of institutionalist political economy.[5] The 'privatised Keynesianism' analogy therefore serves as a useful proxy for this broader literature. The chapter is guided by two core questions. These are:

1. What were the key features of Britain's pre-crisis growth model of 'privatised Keynesianism'?
2. What are the main blind spots of the 'privatised Keynesianism' thesis and how might these weaknesses be rectified?

The first half of the chapter answers the first question. It is composed of three sub-sections. The first differentiates the 'privatised Keynesianism' thesis (PKT) from popular constructions of the 2008 financial crisis in Britain. Following Colin Hay, it is argued that the 2008 crisis was not simply caused by factors which were 'external' to the British economy. Rather, the financial crash represented the breakdown of a distinctive model of 'Anglo-liberal' capitalism of which Britain was a key constituent part (Hay, 2013c). The second section places the emergence of this model of capitalism into its historical context by relating its emergence to broader structural changes in the international political economy throughout the postwar period. It is argued that Britain's finance-led growth model emerged out of two interrelated trends which have underpinned advanced capitalist development since the late 1960s: the on-going breakdown of the post-war model of 'democratic capitalism' on the one hand and the

[5] For example, Crouch's phrase 'privatised Keynesianism' is described by Colin Hay as the ' basic core' of his account of 'Anglo-liberal' growth model (Hay, 2010a: 9), whilst Hay and Payne have described privatised Keynesianism as the 'heart' of 'Anglo-liberal' capitalism (Hay & Payne, 2015: 28). Wolfgang Streeck has also used the phrase to describe debt-led growth models which emerged from the early 1990s (Streeck, 2014a: 38). Andrew Gamble has used the phrase in reference to the British economic model in particular (Gamble, 2011: 47), whilst Matthew Watson derived his term 'house price Keynesianism' from the privatised Keynesian conception (Watson, 2010: 415). Finlayson has also referenced the phrase in his account of Britain's model of asset-based welfare (Finlayson, 2009: 402). Other scholars who have utilised the conception include: Bellofiore, 2013; Boyer, 2012; Engelen et al., 2011; Hay & Wincott, 2012; see also: Van der Pijl, 2015: 14.

corresponding ascendancy of neoliberalism as the dominant mode of social and economic organisation on the other (Krippner, 2011; Mudge, 2008; Streeck, 2014a).[6] The third section moves from an analysis of the broad structural transformation of the advanced capitalist economies to a *conjunctural* level of analysis. Specifically, it examines the articulation of the 'privatised Keynesian' growth model within Britain throughout what is termed the 'pre-crisis conjuncture'. This is defined as the period of sustained (if relatively modest) economic growth between 1992 and 2008. A number of key features of Britain's 'privatised Keynesianism' growth model are identified, including: real wage stagnation relative to productivity growth, sustained asset price inflation, a 'low inflation, low interest rate equilibrium', a persistent current account deficit, an appreciating property market, the importance of 'equity release' as a driver of consumption and rising levels of private indebtedness within the household and corporate sectors. It is argued that the PKT provides us with a compelling framework through which to understand some key structural weaknesses which underpinned British capitalism throughout the pre-crisis conjuncture.

However, in the second half of the chapter it is argued that the growth model perspective is also limited in a number of respects. First, it advances an inadequate explanation of how *stability* was secured throughout the pre-crisis conjuncture. In particular, it tends to miss the ways in which extra-economic institutional forms served to stabilise and consolidate Britain's pre-crisis model of capitalism. Second, and relatedly, the growth model perspective tends to *privilege analytically forms of state intervention which were 'functional' to the financialisation of the British economy* throughout the pre-crisis conjuncture. In other words, the literature tends to understate the key role which alternative forms of state intervention played in helping to sustain, consolidate and stabilise Britain's pre-crisis growth model. This argument is

[6] 'Neoliberalism' is a highly contested concept. A fuller engagement with the concept will take place in the Chapter Three.

made in relation to two subsidiary bodies of literature which both employ the PKT. First, a 'critical institutionalist' current in the literature emphasises the way in which the legitimacy and sustainability of Britain's growth model was sustained through an expansion of private debt and consumer credit throughout the pre-crisis conjuncture (Crouch, 2011; Hay, 2013c; Streeck, 2014a). On the other hand, a 'post-structuralist' current in the literature has focussed on how governments sought to cultivate 'financialised' subjectivities throughout this same period (Finlayson, 2009; Langley, 2007; Watson, 2010). It is argued that both of these approaches understate the way in which alternative forms of state intervention - in particular the expansion of spending on public services in New Labour's second and third terms - flanked and stabilised economic development throughout the pre-crisis conjuncture. As such, the chapter concludes by arguing that the theorisation of *the state* deployed by the growth model perspective is incomplete and stands in need of further development. An alternative conceptualisation of the state and its relation to Britain's pre-crisis growth model is then advanced in the following chapter.

2.2 The 2008 financial crisis and Britain's 'finance-led' growth model

The 2008 GFC and the 'Great Recession' which followed resulted in the largest economic downturn since the 1930s (Henry, 2014: 19). In its immediate aftermath, politicians in Britain advanced two competing narratives which claimed to identify the cause of – and attribute blame for - the crisis which had gripped the British economy (Hay, 2011: 24). The first narrative – promoted in particular by the incumbent Labour government under Gordon Brown – argued that the downturn had been caused by an 'external shock' emanating from the international financial markets (Buller & Lindstrom, 2013: 405). The 'exogenous' nature of the crisis implied that the government could not be held responsible for the downturn (Alexander, 2013: 20;

Thompson, 2009: 521). According to this argument, the public finances had been in good shape under New Labour. Net public debt stood at 36.5% of GDP and the budget deficit stood at 2.4% of GDP on the eve of the crisis (Ussher, 2010: 113). Since these debt and deficit levels were not high by historical standards and fell broadly within the Treasury's framework of 'prudent' fiscal rules (Keegan, 2003), it was argued that the crisis was caused neither by New Labour's profligacy nor by structural weaknesses within the British economy. Rather, the crisis was caused by 'exogenous' factors - namely the implosion of the sub-prime mortgage market in the United States and the subsequent cessation of inter-bank lending on international credit markets (Brown, 2008, 2010; Buller & Lindstrom, 2013: 400).

The second crisis narrative – promoted in particular by the Conservative Party under David Cameron and the then-Shadow Chancellor George Osborne – sought to place the blame for the crisis directly at the door of the incumbent Labour government (Cameron, 2010; see also: Gamble, 2010a: 652). Specifically, the Conservatives argued that Labour had been imprudent in office, recklessly compromising the state of the public finances by funding unsustainable expansions in public spending (Kerr, Byrne, & Foster, 2011: 203). This - so this narrative asserted – led to a crippling debt burden which in turn produced deep imbalances at the heart of Britain's economic model (Osborne, 2010a). Labour's 'debt crisis' was therefore identified as a principal cause of the recession (The Conservative Party, 2009). This narrative was of considerable political utility to the Conservative opposition insofar as it allowed the Party to further undermine the image of Brown as a credible custodian of the public finances (Gamble, 2010b; Hay, 2011: 24). This ensured that the Conservatives enjoyed a decisive political advantage over their opponents in the run-up to the 2010 general election.

However, the PKT challenges both of these crisis narratives. It argues that both characterisations ignore deep structural weaknesses which underpinned Britain's economic model throughout the pre-crisis period (Crouch, 2009; Hay, 2010, 2013a; see also: Gamble, 2014). In this section, we will follow the argument of Colin Hay - a leading exponent of the PKT - who has characterised the financial crash of 2008 as a failure of what he terms 'Anglo-liberal' capitalism (Hay, 2011, 2013b, 2013c). Hay emphasises two dimensions of the 2008 crash which challenge the elite narrations of the economic crisis outlined above. First, he argues that the crisis was *endogenous* to Britain's growth model in a number of important respects. Second, he argues that the 2008 crisis represented a crisis of 'growth' as opposed to a 'crisis of debt' (Hay, 2013b). Taken together, these propositions suggest an alternative diagnosis of the 2008 crisis: that the breakdown represented the failure of a distinctively 'Anglo-liberal' growth model (ALGM) which - as we shall in following sections - had a 'privatised Keynesian' growth dynamic at its heart (Hay & Payne, 2015: 27).

In contrast to claims that the crisis was essentially 'exogenous' or external to Britain's growth model, Hay argues that the crisis should be understood as an 'endogenous' crisis for four main reasons. First, in accordance with the comparative political economy literature, he emphasises the way in which the economies of the United States and Britain share a series of important institutional similarities (Baker, 2010: 648; Crouch, 2009: 391; Hay, 2013a: 2). For example, both the US and Britain prioritise 'shareholder value' as the key metric of economic performance (Hall & Soskice, 2001: 27). Both contain highly liberalised capital markets and have 'flexible' labour markets which are designed to respond rapidly to price signals (ibid. 16). Both have comparatively low levels of taxation and limited systems of welfare provision, at least in relation to other advanced capitalist states (Casey, 2009; Coates, 2001b). In addition, both political economies are organised around a broad ideational commitment to 'market liberal' principles, where free trade, property rights and a limited role for government play a key role in discourses relating to the legitimate scope of state intervention in the economy (Gamble, 2004; Van der Pijl, 2005). On these grounds, the United States and Britain have been characterised by the 'Varieties of Capitalism' (VoC) literature as key examples of 'liberal market economies' (LMEs) which should be distinguished from alternative 'coordinated' models of advanced capitalism (Hall & Soskice, 2001; Albert, 1993; see also: Van Apeldoorn, 2003: 72). Taken together, the Anglo-American political economies constitute the core of a distinctive sphere of development – what Van Der Pijls has referred to as the 'Lockean heartlands' – which has profoundly conditioned the development of the advanced capitalist states as well as the overall structure of the contemporary world order (Dierckx, 2015; Van der Pijl, 2005; see also: Green, 2013, 2015). For these reasons, Britain's pre-crisis growth model is best viewed not simply as a self-enclosed 'national' framework of development but rather as a key nodal point in a broader Anglo-American developmental sphere (Cafruny & Ryner, 2003: 38; Green, 2013). Once we accept this premise, it becomes clear why it is a mistake to view the 2008 crash as originating exclusively from within the United States and as 'exogenous' to the British growth model. As Hay writes, "the origin of ... [the 2008 crisis] ... lies in the Anglo-American capitalism of which Britain, since at least the 1980s, has been perhaps the key architect" (Hay, 2013c).

Second, and relatedly, Hay emphasises the key role that successive British governments played in advancing and sustaining this 'Anglo-liberal' model of capitalism internationally throughout the pre-crisis conjuncture (Hay, 2013a: 2; see also: Hay & Rosamond, 2002). Although Hay acknowledges the similarities between his own account of the ALGM and the VoC literature (Hay, 2013a: 1), his emphasis on elite agency in actively *globalising* Anglo-liberalism marks an important break with the standard VoC approach. This is because there is a strong tendency within the VoC literature to treat LMEs as self-enclosed national systems which tend towards equilibrium (Peck & Theodore, 2007: 762). As a result, the VoC approach systematically understates the co-dependence of different models of capitalism and also tends to ignore the key role that state managers can play in embedding elements of their domestic growth models within international organisations and indeed within other rival economies (Bruff et al., 2015: 33; Jessop, 2012). A brief survey of British and American interventions since the early 1980s, however, reveals that 'Anglo-liberal' policymakers had vociferously exported their market liberalism abroad.[7]

The third, related link between British capitalism and the 2008 crisis resides in the deep institutional linkages which developed between the financial systems of the United States and Britain throughout the pre-crisis conjuncture (Langley, 2006; Macartney, 2009: 462). Undoubtedly, the breakdown of the 'sub-prime' mortgage market in the United States and the subsequent freezing-up of inter-bank lending were both key triggers of the global economic downturn (Dore, 2008: 1107; Sowels, 2014). In this sense, the immediate cause of the global financial crisis did indeed occur 'outside' of Britain's immediate economic orbit. However, throughout the post-war period, the City of London and Wall Street had strongly conditioned one another's developmental trajectory (Green, 2015). For example, although the sub-prime crisis appeared *prima facie* to be a US-based phenomenon, deregulatory competition between Anglo-American authorities had contributed to the emergence of the financial instruments which had made this dynamic possible. As Hay writes:

[7] For example, throughout the 1990s, US politicians - working in concert with representatives of international creditor institutions - sought to 'constitutionalise' market discipline through embedding 'Anglo-liberal' principles into a variety of different international organisations (Gill, 2002a; Panitch & Gindin, 2012: 223; Streeck & Mertens, 2011: 5). Similarly, New Labour acted as a key node of liberalisation within the European Union, pushing for example for enhanced labour market deregulation within the Single Market (Coates & Hay, 2001: 448; Geddes, 2013: 90). These strategic interventions by 'Anglo-liberal' policymakers undermine claims that the financialisation of the global economy in the run-up to the global financial crisis was the inevitable result of 'globalisation' (Hay & Rosamond, 2002; Rosenberg, 2005). Rather, the transformation of global capitalism from the 1970s onwards had in numerous ways been driven by the strategic interventions of policymakers based within the Anglo-liberal heartlands (Gamble, 2001; Hay, 2013a: 2).

> Mortgage-backed securitisation in the US was, quite simply, the product of US regulators fearing a British competitive advantage in the market for securitised assets if they did not match the deregulatory disposition of their trans-Atlantic equivalents. It was the ensuing deregulatory arbitrage which, in effect, US and UK regulators sought to outdo one another in how far they could liberalise market rules that led to the subprime lending that imploded in the bubble burst.
>
> (Hay, 2013a: 2)

Similarly, Robert Wade has argued that,

> The UK's role in the crisis deserves emphasis, because contrary to conventional wisdom, *the dynamics at its heart started there*. The Thatcher government set out to attract financial business from New York by advertising London as a place where US firms could escape onerous domestic regulation. The government of Tony Blair and Chancellor Gordon Brown continued the strategy, leading Brown to boast that the UK had 'not only light but limited regulation'.
>
> (Wade, 2008)[8]

The 2008 crisis was also an 'endogenous' British crisis in a fourth and final sense. Although the downturn may have been 'triggered' by an 'external shock' emanating from the international financial markets, Britain was peculiarly exposed to such 'external' disturbances because over time a series *internal structural weaknesses* had become consolidated within its finance-led growth model (Coates, 2014). In Section Four below the key features of this finance-led growth model will be outlined in

[8] Emphasis added.

more detail. However, it is worth noting here two ways in which the internal structure of Britain's growth model rendered the country peculiarly exposed to the 2008 GFC. First, Britain's exposure to turbulence in the international financial markets was greatly heightened by the policy of successive UK governments to consolidate the role of the City of London as an international financial hub and as the leading economic sector within Britain (Gamble, 2010a: 648; Talani, 2011). Under Blair and Brown, for example, the financial services sector grew rapidly, such that by the end of the New Labour's period in office the UK had the highest private debt of the G7 economies (primarily accounted for by private debt in the financial services sector) (Thompson, 2013: 477). Second, the leading component of GDP growth in Britain throughout the pre-crisis period was consumption which in turn had become increasingly tied to a rapidly appreciating housing market (Montgomerie & Büdenbender, 2015; Watson, 2010). This dependence on rapid asset (particularly house) price inflation meant that the British economy was peculiarly exposed to a downturn in international credit conditions. The revenue base of the state had become increasingly dependent on tax receipts generated from within the financial services sector, associated ancillary services and from consumption associated with this dynamic of credit expansion (Hay, 2013a: 9). As a result, by 2007 the British economy had, "high and steeply rising mortgage and general household debt and rapid house price appreciation... [a] banking sector... reliant on wholesale funding (and hence more susceptible to the freezing-up of inter-bank lending)...and...a large current account deficit" (Hay, 2013a: 6). Together, these *internal* structural weaknesses rendered Britain peculiarly exposed to the 2008 crash and the recession which followed.

Hay's account of the 'Anglo-liberal' growth model therefore challenges those crisis narratives which claimed that the 2008 crash was in essence an 'external' crisis of contagion. Along with other exponents of the PKT, Hay also challenges the claim that the 2007-8 crisis was caused by the profligacy of the New Labour government.

Although this accusation became a central motif of Conservative political strategy in the run-up to the 2010 election, the argument that unsustainable spending under New Labour *caused* the crisis is not a convincing one. This is demonstrated by a brief look at the chronology of the crisis itself and in particular at the timing of the increase in the budget deficit and public debt. As mentioned previously, debt and deficit levels in the UK were not high in the immediate pre-crisis period (Ussher, 2010). In addition, whilst public spending had increased substantially under New Labour in its second and third terms, in comparison to other European countries levels of public spending were not particularly high (OECD, 2014: 1). The rapid increase in Britain's debt and deficit levels – Labour's so-called 'debt crisis' – occurred only *after* the 'credit crunch' had initially struck (Hay, 2013b).

As levels of economic output began to contract rapidly in 2008, British households and firms simultaneously cut back on their spending and investment. This caused a rapid decline in tax revenues. In particular, this episode revealed the heavy reliance of the British tax base on receipts from the financial services sector. For example, whilst in 2006-7, the financial sector's contribution to net corporation tax was £10.37 billion, by 2009-10 this had fallen to £4.57 billion (Thompson, 2013: 483). This decline in tax revenues occurred at a time when unemployment increased substantially, with 580,000 jobs lost between 2008 and early 2010 (Bell & Blanchflower, 2010: 4). This increased pressures on the welfare budget precisely at the moment when the revenue base was contracting (Hay, 2013a: 8). In addition, the re-capitalisation of the banking sector in October 2008 added considerably to the national debt, with the cost of the bank 'bail-outs' estimated at £850 billion (Hay, 2013a: 7). These factors – in combination with a brief period of (limited) fiscal expansion in the immediate post-crisis period - were the principal causes of Britain's increased debt and deficit levels. In contrast to dominant narratives promoted by policymakers at the time, Hay's account of the ALGM suggests that the 2008 crisis and the subsequent 'Great

Recession' were symptoms of the breakdown of a specific *finance-led growth model* which had been in place within Britain since at least the early 1990s.[9] It is to the emergence and consolidation of that growth model to which we will now turn.

2.3 The long transformation of postwar capitalism

Britain's pre-crisis growth model of 'privatised Keynesianism' emerged out of two closely related historical trends: the ongoing breakdown of the postwar model of 'democratic capitalism' on the one hand and the corresponding emergence and consolidation of neoliberalism on the other (Gamble, 2014; Streeck, 2014a). Although these trends were in evidence across the advanced capitalist societies from the early 1970s onwards, this process of social and political change unfolded in a systematically uneven manner across different national economies (Brenner et al., 2010; Streeck & Thelen, 2005). As such, Britain's pre-crisis growth model of 'privatised Keynesianism' should be understood as one *sui generis* articulation of these broader trends under a distinctive set of conjunctural conditions. As such, before turning to the specific characteristics of Britain's growth model in the 'pre-crisis conjuncture', it is useful to account for the broader historical context out of which it emerged.

In a series of contributions, Wolfgang Streeck has provided an analysis of what he terms the "delayed crisis of democratic capitalism" (Streeck, 2014a; see also: 2011, 2012, 2014b). By 'democratic capitalism', Streeck means the distinctive ensemble of social, political and economic institutions which emerged in the aftermath of the Second World War across the advanced capitalist societies. This framework laid the foundations for rapid economic expansion throughout the United States and Western Europe in the three decades after the war (Cerny, 1995). This settlement was underpinned by a distinctive mode of economic development - characterised elsewhere as a 'Fordist' accumulation regime - which effectively combined mass production with mass consumption (Aglietta, 1976; Overbeek, 1989a: 55; Van Heur, 2010: 427). Productivity increases - driven by an intensified division of labour, 'rational' state planning and the utilisation of new production techniques - generated a 'virtuous' growth dynamic, whereby rising real wages and government expenditure underpinned rising aggregate demand and economic expansion (Crouch, 2009). However, as Streeck argues, this framework represented far more than just a 'technical' economic framework[10]; it was at the same time fundamentally *political* in the sense that it relied upon an unwritten social accord between capital, labour and the state (Streeck, 2014a: 21; see also: Kalecki, 1943). On the one hand, the organized working class accepted markets and property rights in exchange for a range of democratic rights and social entitlements. This settlement guaranteed citizens a minimum level of social security as well as rising living standards (Streeck, 2011: 10). On the other hand, markets were embedded within a system of social regulation which established definite limits on the legitimate scope of the commodification process (Esping-Andersen, 2013; Streeck, 2011: 16). For example, fixed exchange rates and capital controls limited the mobility of capital across national borders, the growth of the welfare state softened the disciplinary effect of unemployment and the development of free 'collective bargaining' arrangements placed limits on capital's control over wage rates and the labour process (Gough, 1985; Kalecki, 1943; Ruggie, 2009).

In the immediate postwar period, this framework generated impressive economic growth, full employment and rising living standards across the advanced capitalist societies. In turn, this consolidated the legitimacy of the postwar social order from the perspective of both labour and capital (Streeck, 2014a: 79).[11] However, whilst this model of development temporarily *displaced* distributional and social conflict, it

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[10] Streeck's argument is made specifically against the crisis theories of the Frankfurt School - in particular those of Friedrich Pollock and Jürgen Habermas - which argued that state-managed capitalism had effectively 'solved' the problem of economic management but at the cost of creating new 'legitimation' crises within the political sphere (Habermas, 1975; Pollock, 1978).
[11] In Streeck's terms these the 'Staatsvolk' and 'Marktvolk' respectively.

did not abolish it permanently. Rather, as Streeck argues, this regime rested upon a 'forced marriage' between democracy and capitalism (Streeck, 2014a: 4). It effectively - but only temporarily - reconciled two competing principles of resource allocation, "one operating according to marginal productivity...[the] 'free play of market forces', and the other based on social need or entitlement, as certified by the collective choices of democratic politics" (Streeck, 2011: 7). Insofar as postwar capitalism continued to generate economic growth, these latent conflicts could be managed through macroeconomic intervention. However, from the late 1960s onwards, profit rates began to decline rapidly amidst rising inflation, growing turbulence in the international commodity markets, an upsurge in labour militancy and falling rates of private investment (Brenner, 2003). In an effort to restore profitability and to regain control over the labour process, business interests increasingly agitated for policies which would discipline the rising expectations and the political power of the organised working class. As a result, those institutions which had hitherto limited the scope of the market – powerful trade unions, extensive systems of social protection and the public ownership of key firms and sectors – were increasingly subject to politically coordinated retrenchment (Glyn, 2006: 122; Harvey, 2005).

For Streeck, the 2008 crash and its aftermath should be read as the most recent phase in this ongoing, long decomposition of 'democratic capitalism' (Streeck, 2014a). Since the late 1970s, 'market justice' has increasingly emerged as the dominant principle of resource allocation. However, attempts to establish and maintain this 'market liberal' distributional framework tend to be hugely disruptive (Polanyi, 2001). As capital progressively extricated itself from the parameters imposed on it by the postwar settlement, government officials were increasingly faced with the question of how to ensure that this process did not provoke a wider legitimation crisis or political crisis of the state (Burnham, 2011; Habermas, 1975). Streeck's argument is that from the mid-1970s onwards, the institution of *money* played a key role in containing the effects of the breakdown of 'democratic capitalism' by displacing the social and distributional conflicts which might otherwise have destabilised this process into the future (Streeck, 2014a; see also: Jessop, 2013a: 9;). On this basis, Streeck periodises capitalist development since the 1970s in terms of three distinctive 'monetary fixes' which have 'bought time' for - or avoided a social crisis of - the emergent market liberal order.

First, from the early 1970s onwards, *inflation* played a key role in temporarily preventing distributional conflicts from undermining the political basis of the state (Streeck, 2014a: 33). Since World War II, successive Western governments had based their legitimacy on securing the conditions for full employment and on ensuring rising living standards for their citizens (Judt, 2011: 460). Consequently, as economic stagnation began to set-in, governments across the West calculated that it would be highly risky to impose deflationary policies on their citizens. Rather than implementing rapid cuts or abandoning their commitment to full employment, governments instead adopted a monetary policy which allowed wage increases to outstrip productivity growth (Streeck, 2014a: 32). In the first half of the 1970s, this allowed for relatively high levels of employment to continue and for nominal wages (at least in highly unionised sectors) to be protected in relative terms despite the economic downturn (Sachs & Gordon, 1983: 257). However, this dynamic could not endure indefinitely. Rising inflation devalued national currencies and eroded the confidence of international and domestic creditor institutions. As a result, private investors increasingly withdrew their capital from circulation, compounding the deflationary spiral and increasing the social and political pressures on the Keynesian national state in the process (Jessop, 2002b).

By the early 1980s, Western governments – led by the Reagan and Thatcher administrations – began to implement radically deflationary policies (Gamble, 1988;

Gough, 1980; Jessop et al., 1988). After the 'Volcker Shock' of 1981, interest rates were hiked further and unemployment rose across Anglo-America (Hall, 1993: 283; King & Wood, 1999: 380). Although this served to discipline the wage demands and political power of organised labour, the huge increase in unemployment simultaneously increased pressure on government's welfare budgets (Farrall, 2006: 272). At the same time, the tax base contracted as corporations and high income earners successfully agitated for large tax cuts. Consequently, public debt increased rapidly from the late 1970s onwards across the advanced capitalist states (Streeck, 2014a: 8). This process benefited holders of capital in two ways. Lower rates of taxation meant that corporations and wealthy households held onto far larger portions of their after-tax income. At the same time, increased levels of public debt meant that these same social groups could lend their savings back to the state - through purchasing government bonds - at a considerable profit (Blyth, 2013; Hager, 2015). Growing *public indebtedness* therefore represented the second 'monetary fix' which emerged in the period after the 1970s, as the costs of rapid deflation and neoliberal retrenchment were displaced into the future via the public balance sheet (Streeck, 2011: 14).

However - as was the case with the 'inflationary fix' - this mechanism could not be deployed indefinitely. Rather, by the late 1980s, government deficit and debt levels had ballooned substantially. International creditors increasingly began to question the credit-worthiness of sovereign debt held by leading advanced capitalist states (Streeck, 2014a: 36). There were also concerns that large levels of government borrowing would 'crowd out' private investment by artificially raising the cost of credit. As a result, by the early 1990s, Western governments - led by Clinton in the US and by Major in Britain - set-out to reduce their budget deficits through further rounds of expenditure cuts (ibid. 16). This programme of fiscal consolidation could have provoked a social crisis, not least because the substantial cuts proposed occurred in a context of constrained wage growth and growing inequality. As such, fiscal consolidation could have seriously undermined household spending power and aggregate demand. However - once again - a 'monetary fix' came to the rescue. As deficit reduction was implemented across Britain and America, the systemic importance of the financial sector - which had already expanded rapidly throughout the 1980s - increased further still (Boyer, 2012; Streeck, 2011: 17). Thus, although public debt as proportion of GDP was held relatively constant or even declined across Anglo-America in the 1990s and 2000s[12], *total* debt continued to rise rapidly, driven by huge increases in financial services and household debt (Boyer, 2012: 8). The 'delayed crisis of democratic capitalism' thus entered a third phase whereby rising *private indebtedness* increasingly came to underpin rising consumption and economic growth. These distributional shifts - as we shall see in the following section - formed the backdrop to the regime of 'privatised Keynesianism' which formed the core of Britain's growth model in the pre-crisis conjuncture (Crouch, 2009).

As the above summary suggests, Streeck's argument traces the prolonged *decomposition* of a relatively stable institutional order - what he terms 'democratic capitalism'. This captures what has been referred to elsewhere as the 'deconstructive' elements of the restructuring process which followed the 1970s crisis (Cafruny & Ryner, 2003). However, this process was of course flanked by and was closely related to the emergence of an alternative, more 'constructive' political programme: that of *neoliberalisation* (Brenner et al., 2010; Peck, 2010).[13] The meaning of 'neoliberalism' is hugely contested and has generated a gargantuan academic literature. The concept will be engaged with at greater length in the following chapter. However, for present purposes, we can state three interrelated distributional shifts which are commonly associated with neoliberalisation processes and which are of particular relevance to

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[12] For example Clinton's programme of budgetary consolidation brought the public debt ratio of the United States down by 10 per cent (Streeck, 2014a: 40).

[13] Specifically, 'roll out' neoliberalisation (Peck, 2010: 16). For more details on this, see Chapter Three below.

the argument of this chapter. First, neoliberalisation has been associated with a declining 'wage share' - the proportion of overall output which goes to workers - across the advanced capitalist states (Bengtsson & Ryner, 2014; Stockhammer, 2013). For example, across Europe, the 'wage share' fell from 72.5 per cent in the early 1980s to 63.3 per cent in 2007 (Stockhammer, 2011: 10). Second, this distributional shift was linked to a marked decline in the power of organised labour across the advanced capitalist economies (Machin, 2004; Western, 1995). Third, there was a rapid growth of financialisation from the 1980s onwards, understood as the increasing role of "financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein, 2005: 3; Krippner, 2011).

In combination, these distributional processes produced a structural shortfall in aggregate demand across the Western economies (Crotty, 2000: 2; Kotz, 2009: 9). As real wages slowed relative to productivity growth, this created a conundrum for policymakers seeking to shore-up the emergent market liberal order: how would economic growth continue as domestic demand was constrained through real wage repression? Two distinctive responses emerged in response to this conundrum. Some countries – notably Germany and other Northern European states – increasingly came to rely upon externally-induced demand through increasing exports (Hall, 2012; Stockhammer, 2010). Whilst wage rates were repressed relative to productivity growth in these 'export-led' economies, growth was achieved through generating large trade and current account surpluses (Crouch, 2009: 384). Other countries – in particular the United States and Britain – pursued 'debt-led' growth models (Stockhammer, 2012: 63). Whilst real wage growth fell in these economies relative to productivity - for example in the US output per hour increased by 2.24 per cent per annum between 1990 and 2007 whilst average hourly earnings increased by only 0.49 per cent - domestic demand was increasingly sustained through burgeoning current account deficits and through rising levels of private indebtedness (Kotz, 2009: 17; Stockhammer, 2011: 20). The rise of neoliberalism and the corresponding decline of 'democratic capitalism' therefore produced two distinctive but interdependent growth models across the advanced capitalist states in the pre-crisis conjuncture (Stockhammer, 2011: 20). Britain's regime of privatised Keynesianism should be understood as the articulation of one such 'debt-led' growth model under a distinctive set of conjunctural conditions. It is to the key features of Britain's growth model in the 'pre-crisis conjuncture' that we shall now turn.

2.4 Privatised Keynesianism in Britain

Throughout this thesis, Crouch's phrase 'privatised Keynesianism' will be used to characterise Britain's pre-crisis growth model. Crouch's analogy has become a common point of reference for those advocates of the growth model perspective. For example, Colin Hay has written that 'privatised Keynesianism' forms the 'basic core' of his account of the 'Anglo-liberal' growth model (Hay & Payne, 2015: 27; Hay, 2010a: 9). Streeck has also characterised the emergence of private debt-led growth from the early 1990s onwards as an example of 'privatised Keynesianism' (Streeck, 2014a: 38). Similarly, Watson derives his term 'house price Keynesianism' from the privatised Keynesian conception (Watson, 2010: 415), whilst Alan Finlayson has also made reference to the phrase in his analysis of financialisation and its relation to 'asset-based welfare' (ABW) programmes (Finlayson, 2009: 402). As such, the PKT effectively links together a series of contributions from a range of different scholars who have written on Britain's pre-crisis model of capitalism.

Crouch's account of 'privatised Keynesianism' in many ways complements Streeck's conception of the decline of 'democratic capitalism'. However, Streeck's argument focuses primarily on the *agency of capital* and its role in undermining the postwar social order (Streeck, 2014a: 18; Van der Pijl, 2015). He shows how international creditors undermined 'democratic capitalism' by withdrawing their capital from circulation at crucial moments over the past four decades. Crouch's contribution is different insofar as his argument focuses more exclusively on the *systemic* requirements and contradictions of advanced capitalist development. Specifically, he draws attention to two macroeconomic policy paradigms which emerged to sustain aggregate demand throughout the postwar period (Crouch, 2009: 385). His argument begins from the same premise as Streeck: that the dominant model of Western capitalism in the immediate post-war period was underpinned by a deep contradiction (Crouch, 2009, 2011). On the one hand, capitalist economies have a tendency to produce periods of profound instability which threaten the economic security of citizens (Crouch, 2009: 382). For example, in an economic downturn, 'market-led' correction will require either that real wages fall or that unemployment rises. At the same time, capitalism requires a solid base of confident mass consumers who feel economically secure enough to consume newly produced economic output.[14] As a result, if workers feel generally insecure with respect to their employment situation, this is likely to act as a drag on consumption expenditures and therefore on economic growth. One key problem at the heart of advanced capitalism, then, is how to resolve this tension "between the insecurity and uncertainty created by the requirements of the market to adapt to shocks [on the one hand], and the need for democratic politics to respond to citizens' demands for security and predictability in their lives [on the other]" (Crouch, 2008: 476).

Crouch argues that two broad macroeconomic policy paradigms emerged in the post-war period which sought to resolve this tension (Crouch, 2009: 382). First, from approximately 1945 to the mid-1970s, Western governments attempted to reconcile

[14] In advanced capitalist societies, domestic consumption typically accounts for approximately two thirds of aggregate demand (Lansley, 2011: 170).

capitalism's need for labour flexibility with its need for a stable mass consumer base through Keynesian demand management (ibid: 386).[15] However, whilst this framework delivered impressive levels of economic growth throughout the first two decades of the postwar period, the Keynesian paradigm began to unravel dramatically in the aftermath of the 1973 oil price shock (Wade, 2008). In its place, a second policy paradigm began to emerge - at different speeds and to different extents across different Western states - which sought to re-establish price stability and market discipline over society. However, with Streeck, Crouch argues that this second - neoliberal - policy paradigm did not eradicate the core contradiction at the heart of postwar capitalism. Instead, it only temporarily displaced it. As such, from the late 1980s onwards a distinctive regime of 'privatised Keynesianism' emerged across Anglo-America. As was the case with traditional Keynesianism, this model still utilised debt to sustain aggregate demand throughout this period. However, this function became increasingly *privatised*: "instead of governments taking on debt to stimulate the economy, individuals did so" (Crouch, 2009: 390; Schafer & Streeck, 2013). As a result, the crisis tendencies which might have been associated with neoliberalism were temporarily displaced through the expansion of private credit and the rapid growth of current account deficits (Kotz, 2009).

The emergence of Britain's pre-crisis growth model can be understood as the articulation of this broader dynamic of 'privatised Keynesianism' under a distinctive

[15] In an economic downturn - when firms and households were likely to cut-back on their consumption and withhold on investment - the state would cut interest rates and increase public expenditure in order to maintain levels of aggregate demand and economic output. This would involve temporarily running budget deficits and accepting higher public debt-to-GDP ratios in order to stabilise employment and to sustain economic growth. Conversely, in periods of rapid economic expansion, the state would cut back on public expenditure, pay-down debt and raise interest rates, containing inflationary pressures whilst allowing private investment to expand within a context of price stability (Ruggie, 2009; Skidelsky, 2010). In this way the 'peaks' and 'troughs' of the economic cycle would be 'smoothed-out' through counter-cyclical government expenditure – a process which would allow for a virtuous combination of rising wages, rising productivity and generalised economic expansion at a level of full (male) employment (Jessop, 2013a).

set of social and political conditions (Hay, 2009: 462).[16] For the purposes of this chapter, we can advance the claim that the emergence and consolidation of 'privatised Keynesianism' took place within what can be termed the '*pre-crisis conjuncture*'. This refers to the period of relatively stable economic growth, low unemployment and low inflation between 1992 and 2008 (Bellofiore, 2013: 498; McMorrow & Roger, 2007). During this period of time a series of distinct economic and social processes interacted so as to produce a *relatively coherent, emergent regime of privatised Keynesianism*. These tendencies were partly a reflection of long-standing structural trends in the British economy. However, at the same time, these structural trends should not be conceived as purely 'exogenous' pressures over which policymakers had little control. Rather, structural processes are always mediated, interpreted, reproduced (and at times challenged) through the strategic interventions of social forces working through the institutional apparatus of the state (Hay, 2002: 89; Jessop, 1990). Five trends or

[16] Although many scholars have deployed the conception of a pre-crisis 'growth model' there is no common agreement on the exact point at which 'privatised Keynesianism' emerged in Britain. For example, the origins of Britain's pre-crisis growth model have been traced back to the 1980s (Berry, 2013: 4; Hay & Payne, 2015: 27; Kirkland, 2015), to the early 1990s (Hay, 2009: 470) and even to the early 2000s (Casey, 2014: 356). That there is no consensus on the precise 'starting-point' for Britain's pre-crisis growth model should perhaps be unsurprising. Indeed, the extent to which institutional or policy change can be identified depends on which policy area or institutional complex one isolates in ones' analysis (Marsh, 2010: 228). Since the 'growth model' concept seeks to capture the way in which a range of different social and political processes combine to produce relatively stable periods of economic growth, the identification of a given growth model *necessarily* involves the identification of a number of processes which have distinct historical origins. For example, the dominance of finance over manufacturing in Britain is a long-standing feature of the British economy and is closely tied to the UK's status as a post-imperial state (Anderson, 1987; Coates, 2014: 175). This therefore represents a *long-term* feature of British capitalist development which nonetheless conditioned the emergence of 'finance-led' growth in the pre-crisis conjuncture (Hay, 1999: 27; see also: Overbeek, 1989a: 40). At the same time, other aspects of Britain's pre-crisis growth model were the result of *short-term* factors. For example, the granting of 'operational independence' to the Bank of England in May 1997 was the result of political calculations on the part of Brown's Treasury. [16] Nonetheless, this intervention had important implications for economic policymaking in general and the position of the City of London within Britain's emergent finance-led growth model in particular (Burnham, 2001; Hay, 2013a: 11). The important point here is that all growth models embody a combination of different elements which embody 'long-term' and 'short-term' tendencies and counter-tendencies (Overbeek, 1989b). As such, we should not expect to identify a 'year zero' from which 'privatised Keynesianism' emerged in Britain. That said, it is still possible to identify emergent tendencies (and counter-tendencies) which give rise to relatively coherent, stable patterns of social and economic development throughout different historical conjunctures.

tendencies can be identified which fused together to produce an emergent regime of privatised Keynesianism throughout the pre-crisis conjuncture. Let us take each in turn.

Structural shift from manufacturing to services

The first trend is the ongoing sectoral re-composition of the British economy away from manufacturing and towards services (Coutts et al., 2007). In 1983 – in the wake of the first Thatcher government's first squeeze on domestic industry – Britain became a net importer of manufactured goods for the first time in over two hundred years (Coates, 2001: 44; Wilkinson, 2007: 827). The 'shock therapy' of monetarism – pushed through with a combination high interest rates, the abolition of exchange controls and a tightening of the public finances – resulted in a 17% increase in the real exchange rate (Keegan, 1985: 36). This hit exporters particularly hard as credit conditions tightened and the competitiveness of industrial exports weakened abroad. As a result, manufacturing output fell by 18% between 1979 and 1981 (Landesman & Snell, 1989: 3). This squeeze on manufacturing output continued throughout the Thatcher period, with investment in manufacturing falling over this period (Leys, 1985: 12). By 1990, the number of people employed in manufacturing in Britain had declined by 30% compared to 1979 (Coates, 2005: 8).

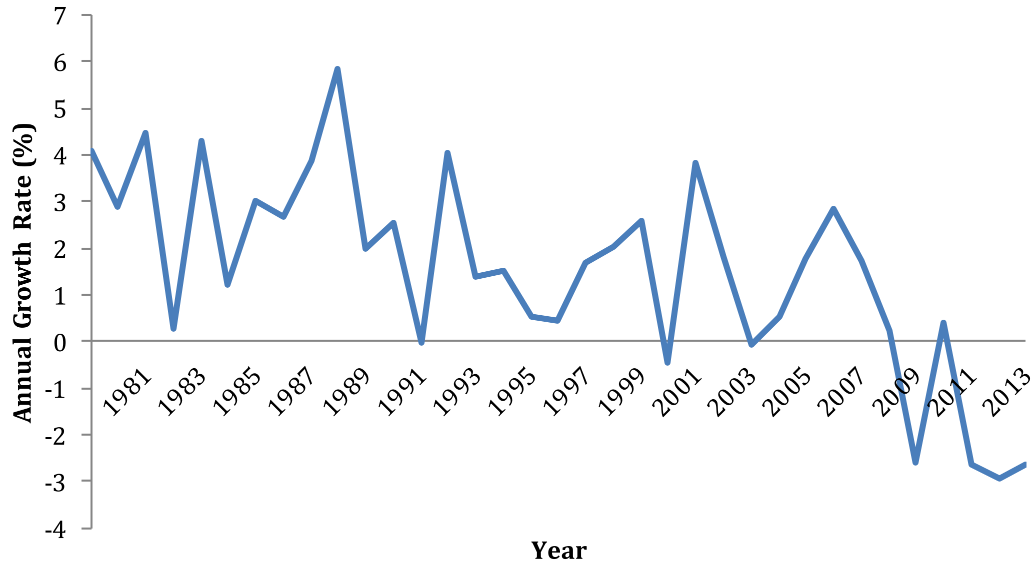
This structural shift away from manufacturing and towards services continued between 1992 and 2007 under the Major and Blair governments. For example, whilst manufacturing amounted to 20% of total British output in 1992, by 2007 its contribution had declined to 12% (Coates, 2013: 44). This decline in manufacturing output was paralleled with an increased shedding of jobs in the manufacturing sector. Indeed, employment in manufacturing contracted more rapidly under New Labour than under the previous Conservative governments, with an annual average contraction of 3.5% per year under Blair compared to 2.5% a year under the Conservatives (Coutts et al., 2007a: 5). This squeeze on manufacturing in the 1990s and

2000s was caused *inter alia* by the continuation of a high exchange rate regime and by the dominance of short-term lending in the UK's capital markets as opposed to long-term lending targeted at productive investment (Coates & Hay, 2001; Engelen et al., 2011: 190; Glyn & Wood, 2001: 52; Hutton, 2011). This led to an increasing deficit on trade in goods – a trend which was only partly offset by a surplus on the balance of trade in services (House of Commons, 2012: 5). The result of this was that the overall trade deficit increased by a factor of eleven throughout the 1990s and 2000s, from £3.3 billion in 1992 to £37.6 billion in 2007 (House of Commons, 2012: 14).

Relatively Stagnant Wage Growth

In the absence of export-led growth and with an ongoing deterioration in the current account balance, the British economy became increasingly dependent on domestic consumption throughout the 1990s and 2000s (CBI, 2011: 11; Kitson & Wilkinson, 2007: 811; Lansley, 2011: 156). However, this growing reliance on domestic consumption took place against a backdrop of relatively stagnant wage growth. As Figure 2.1 shows, from the late 1970s onwards, real wage growth in Britain successively slowed year-on-year. Whilst real wage growth averaged 2.9% per annum in the 1970s and 1980s, this slowed to 1.5% in the 1990s, and dropped again to 1.2% throughout the 2000s (ONS, 2014: 3). With the reduced bargaining power of trade unions (Glyn, 2006: 122; Machin, 1997; Weeks, 2007: 159), the continuation of a regime of flexible labour markets and the continuing growth of low pay, low productivity service sector work, real wages continued along a downwards trajectory throughout the pre-crisis conjuncture (Coates, 2001: 91),

Figure 2.1: UK Real Wage Growth (1979 - 2013)



Source: Office for National Statistics. An Examination of Falling Real Wages (ONS, 2014a).[17]

Declining 'wage share' and rising inequality

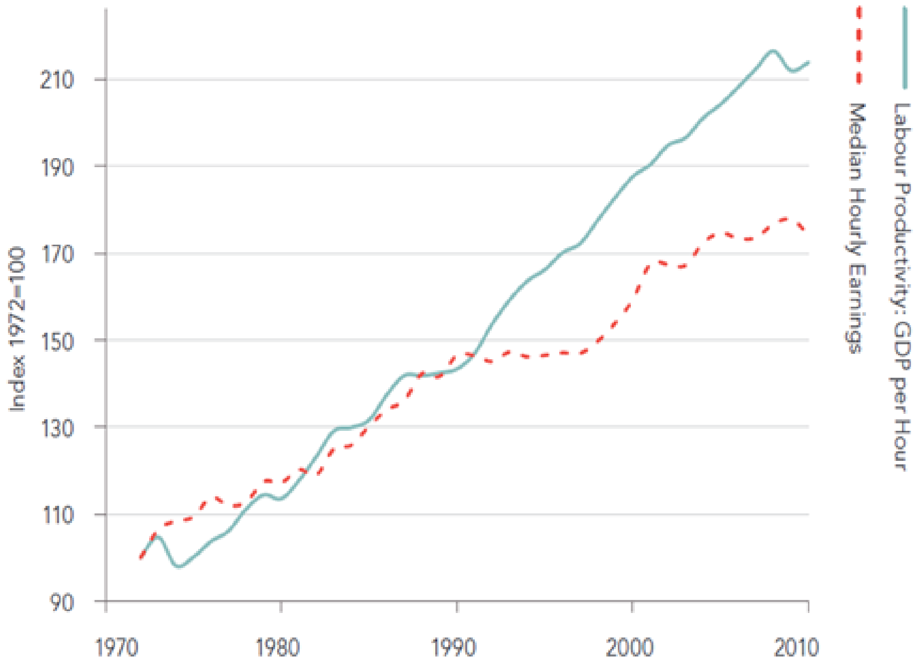
This slowdown in real wage growth contributed to a decline in the 'wage share' – the proportion of national income which accrues to labour – in Britain as in other advanced capitalist economies (Lansley, 2011: 41; Stockhammer, 2011). During the long boom of the 1950s and 1960s, and until the end of the 1970s, the wage share hovered at around 60% of national income (ibid). This was of course partly the result of deliberate macroeconomic policymaking, as politicians sought to pump-prime the economy in order to secure full employment and rising living standards. It was also a reflection of the power of organised labour to secure wage increases broadly in line with productivity increases under the postwar Keynesian regime (Jessop, 2002b; Rupert, 1995). However, from the 1980s onwards, this structural coupling between productivity and wages began to unravel, and the wage share began what has been termed a 'three-decade long descent' in Britain (Lansley, 2011: 41). By 1996 it had fallen by 9% to a post-war low of 51%, recovering only slightly to 53% by 2008 (ibid).

[17] Average Weekly Earnings deflated by RPI, per cent change on the same quarter a year ago. Each interval point refers to Q1 of each year.

The effect of this was that throughout the 1990s, "wage-earners as a group were receiving around seven per cent less of national income – the equivalent of some £100 billion a year – than they were in the post-war decades" (ibid).

As was argued in the previous section, this decline in the wage share has been a defining feature of economic development since the 1980s across the advanced capitalist economies. Contrary to the orthodox view of mainstream economists, however, the consequent increase in profits did not lead to rapidly rising investment and growth (Duménil & Lévy, 2011; Kotz, 2015). Rather, the ongoing decline in the wage share creates a permanent tendency towards economic stagnation, breakdown and crisis (Stockhammer, 2013). This is because wages do not merely constitute a cost of production but also act as a key component of aggregate demand (Onaran, 2014: 5). Insofar as workers have a higher propensity to consume, a decline in the wage share can act as a latent brake on consumption and on aggregate demand formation (Goda, 2013; Hein et al., 2014; Kotz, 2009). However, it is also important to note that the decline in the 'wage share' in Britain was not as pronounced in other advanced economies over this period (Stockhammer, 2013). This is where a second feature of British economic development was crucially important in constraining aggregate demand formation throughout the pre-crisis conjuncture: the growing inequality of earnings from employment across the income distribution (Plunkett, 2011). The wage share is a broad measure which takes into account the incomes of employees working in very different sectors and on very different pay scales. For example, it includes the wages of workers located in traditionally 'low pay' sectors such as food and retail as well as high pay workers such as chief executives and senior managers. This is particularly important in the case of the UK, since "between 1978 and 1990 household income inequality in the UK rose much more than in any other OECD state" (Glyn & Wood, 2001: 56). As a result, the earnings of workers in the top tenth of the income distribution increased substantially throughout the 1990s and 2000s relative to the median (Bell & Van Reenen, 2010). This meant that the overall fall in the wage share was experienced more sharply at the bottom of the income distribution (Lansley, 2011: 49). As a result, this can "make the fall in the wage share look more modest than it is in reality for the majority of the wage earners" (Onaran, 2012). The implication of this is that "the falling wage share has not been evenly distributed across the earnings range but has been borne by middle and lower paid employees. The bottom three-fifths of earners have thus faced a sustained double-edged squeeze – a shrinking share of a diminishing pool" (Lansley, 2011: 49). These trends underscore the importance of looking at the relationship between *median* income earners and productivity rates. Indeed, focussing on median income earners reveals that 'the wages of middle income Britain grew by an average of just 56 per cent between 1978 and 2008, despite GDP increasing by 108 per cent over the same period, and for some workers real income growth was far less (Smith, 2013). Figure 2.2 shows the relationship between median hourly earnings and labour productivity in Britain from the early 1970s to 2010. As can be seen, from the 1970s up to 1990, median hourly earnings broadly followed increases in labour productivity. However, in the early 1990s there was a 'decoupling' between labour productivity and median wages in Britain. This meant that increasingly middle income earners in Britain gained a smaller share of overall output.

Figure 2.2: UK Trends in Hourly Earnings and Productivity (1970 - 2010)



Source: The Resolution Foundation, (2012: 21).

Rising Household Debt

Between 1992 and 2007, Britain's growth model therefore internalised two pressures which had the potential to severely restrict aggregate demand: a poor export performance and a deteriorating current account balance on the one hand, and relatively stagnant income growth resulting in a declining wage share, on the other. The PKT argues that private debt increasingly 'filled-in' for these demand shortfalls within Britain's throughout the pre-crisis conjuncture (Crouch, 2011; Hay, 2013c). By looking at the data we can see that private debt did indeed become increasingly prevalent within the British economy between 1992 and 2008. For example, household debt as a proportion of GDP stood at approximately 60% in 1987. By 1992, this figure had increased to around 70% and it remained broadly at this level until 1999 (FSA, 2009: 13). However, there was then a marked rise in household debt-to-GDP ratios between 1999 and 2007, with the figure increasing to 120% of GDP over this period (ibid). There was also a corresponding increase in household debt as a proportion of gross disposable income. Whilst household debt stood at 100% of gross disposable income in 2000, by 2005 it had increased to approximately 150% (IMF, 2008: 18; see also: Smith, 2013). There is clear evidence, then, that household debt levels increased substantially in the pre-crisis conjuncture in Britain, both as a proportion of GDP and as a proportion of gross disposable income. Two principal factors can be identified as being behind this trend. On the one hand, there was a growing demand for cheap credit (Montgomerie, 2007: 9). As gross disposable incomes stagnated - particularly for low-middle income earners between 2003 and 2008 - there was an in-built incentive to borrow at historically low interest rates in order to maintain living standards (Stockhammer, 2014: 17). On the other hand, there was a boom in the *supply* of cheap credit, partly as a result of the recycling of surpluses from China and the East and partly as a result of fierce competition between creditor institutions driving commercial interest rates down (Saull, 2012; Stockhammer, 2014: 18).

Rising household indebtedness, Mortgage Equity Withdrawal and Consumption

Rising household indebtedness and appreciating property prices also played an important role in sustaining consumption throughout the pre-crisis conjuncture (Engelen et al., 2011; Hay, Smith, & Watson, 2006: 20; Hay, 2010; Watson, 2010). Whilst we can identify an increase in household debt throughout the 1990s and 2000s, it is crucial to note that mortgage credit typically accounts for approximately 80% of household debt (Stockhammer, 2012: 53; Hamnett, 2010: 117). In other words, the increase in the household debt ratio from 1992 - 2008 was largely driven by households seeking to gain access to a rapidly appreciating property market. A number of factors drove this dynamic throughout the pre-crisis conjuncture. First, between 1992 and 2007, consumer price inflation fell in Britain to comparatively low and stable levels, partly as a result of counter-inflationary monetary policy but also as a result of the influx of cheap imports from China and East Asia. This created an environment in which a sustained drop in interest rates could take place, reducing the cost of borrowing for consumers and creating a powerful incentive to accumulate assets in the housing market through mortgage credit (Hay et al., 2006: 21; Hay, 2010: 5; Watson, 2003: 295). Second, intense competition between mortgage providers coupled with New Labour's 'light touch' regulatory approach to financial services helped to facilitate conditions under which lending conditions slackened considerably. This led to a plethora of lending practices - including rising loan-to-value ratios, a loosening in borrower eligibility requirements and ever-smaller deposit requirements – which significantly relaxed credit conditions and encouraged ever-widening access to mortgage finance. The result of this was that by the end of the New Labour period, there was a growing tendency for households to take-out mortgages which were greater in value than the current valuation of the property, with an expectation that future price rises would make this a profitable investment (Watson, 2010: 418). This in turn fuelled higher levels of demand for mortgage credit which subsequently increased the upwards pressure on house prices throughout this period (Hay, 2010: 10).

For advocates of the PKT, these house price dynamics were not just isolated price trajectories. Rather they played a crucial *systemic* role in sustaining British capitalism in the pre-crisis period. As Watson has written, "private dwellings [became] quasi-public spaces positioned at the apex of political attempts to reproduce stable conditions suited to the expansion of wealth held privately within the economy (Watson, 2010: 414). The systemic role played by rising house prices was that they effectively linked together rising levels of private indebtedness, aggregate demand and consumption (Hay, 2010a: 9). Whilst in 1995 the average house price stood at £65,000, by 2007 this had increased by over 300% to an average of £200,000 (Hamnett, 2010: 114). This increase in the value of the housing stock did not only augment the wealth portfolios of British homeowners; it also created a new reservoir of equity upon which homeowners could draw to fuel current consumption (Engelen et al., 2011: 208). Colin Hay has outlined the key link between rising house prices, equity release and consumption in some detail:

> Consider, for instance, the situation in November 2006 when the average house price in the UK topped £200,000 for the first time. At that point average annual earnings were about £30,000 and house prices were increasing at an annual rate of 11 per cent. In effect, the wealth effect associated with house price inflation was the equivalent of three quarters of pre-tax annual average earnings. Unremarkably, for many this proved an irresistible incentive to release equity to fuel consumption… such credit-based consumption was, between 2004 and 2006, typically worth between 4 and 6 per cent of GDP—or, in other words, responsible in and of itself for keeping the UK economy in growth at what most would see as a relatively high point in the economic cycle.
>
> (Hay, 2009: 469)

As mortgagers accumulated housing equity – that is as the value of their homes exceeded their outstanding mortgage debt – this led to a substantial 'wealth effect'. This allowed mortgagers to borrow against the rising value of their property in order to fuel current consumption (Hay & Wincott, 2012: 125). CRESC have calculated that of equity withdrawn in 2008, 40-50% of gross equity release was used to fuel current consumption (Ertürk et al., 2011: 33). The result of this was that, "in the years of the Blair premiership (1997 – 2007), the real value of equity withdrawals was larger than the increase in gross domestic product (GDP) and in every year from 2002 to 2007 the value of housing equity withdrawal was at or above 4%" (Engelen et al., 2011: 208). This emphasis on the housing market as a source of funds for private consumption has been described by Hay as one of the key drivers of the 'Anglo-liberal' growth model (Berry & Hay, 2015: 3; see also: Crouch, 2009: 391). Hay continues, "this process of equity release…has been responsible to a significant extent for the UK's sustained period of personal debt-financed consumer-led economic growth since 1992" (Hay, 2009: 470).

Financial market deregulation

Easy access to credit for households and firms was an essential component of Britain's growth model in the pre-crisis conjuncture. One crucial precondition of this dynamic was the deregulation of finance and the liberalisation of capital markets across Anglo-America (Krippner, 2011; Stockhammer, 2011: 20). In Britain, the abolition of exchange controls (1979), the ending of direct control over bank lending (1980), followed by the removal of restrictions on Building Societies lending capacities (1986) all contributed to a decline in the cost of credit for households and firms (Aoki et al., 2002: 4). This trend continued throughout the 1990s and 2000s, such that the Bank of England wrote in its 2001 inflation report that, "competition in retail credit markets has intensified in recent years which, together with product innovation, may have widened the availability of credit and reduced its price" (Bank of England, 2001: 5). In addition, financial market deregulation also played a crucial role in sustaining the international context within which Britain's growth model was embedded. The large current account deficits accumulated in Anglo-America over this period were possible only insofar as foreign creditors were willing to finance these deficits. In other words, 'debt-led' growth was possible only insofar as the export-led economies were willing to recycle the large surpluses which they had accumulated through capital markets into the debt-led economies (Stockhammer, 2011: 20). In addition, the UK's 'light touch' regulation of the financial sector led to a huge increase in corporate debt. Between 2000 and 2008, "declared UK bank liabilities rose by 151 per cent" whilst by the end of

New Labour's period in office, the UK had the highest private debt of the G7 economies (Thompson, 2013: 479). The key features of Britain's pre-crisis growth model are presented in Figure 2.3 below.

Figure 2.3: Key features of Britain's pre-crisis growth model (1992 – 2008)

Absolute real wage stagnation: slowdown in real wage growth from 1990s – 2008 with stagnant median household incomes in absolute terms from 2003 – 2008
Relative real wage repression: median real wages fall relative to productivity increases 1992 – 2007
Growing inequality across income distribution: Earnings disproportionately skewed to top end of income distribution throughout pre-crisis conjuncture
Aggregate demand gap: in line with other advanced capitalist economies, Britain's economy faced structural shortfalls in aggregate demand, as a result of falling 'wage share', rising inequality of earnings, weak exports and relatively low investment levels
Private debt expansion I: Secured lending – increased household debt as proportion of income, particularly from 2000 – 2007, driven by easy access to mortgage finance

Private debt expansion II: Bank balance sheets triple between 2000 and 2007. UK has highest private sector debt of G7 by 2007

House price inflation: Rapid increase in value of residential property (10 per cent per annum throughout 2000s). Through MEW increasing link between house price appreciation and consumption

Financial deregulation: Light touch regulation of City of London crucial precondition of financial sector debt expansion and credit provision to households

2.5 Limitations of the 'growth model perspective': capitalist stability and the role of the state

The PKT provides a useful framework through which to understand some of the key features of Britain's economy in the pre-crisis conjuncture. However, in this section it is argued that the PKT - and the growth model perspective more broadly - are also limited in a number of respects.[18] First, the growth model perspective cannot adequately explain how *stability* was secured throughout the pre-crisis conjuncture. Insofar as it attempts to explain how stability was secured throughout this period, the growth model perspective tends to appeal to mechanisms which were *internal* to the finance-led growth model itself. As such, it tends to miss the ways in which *extra-*

[18] The growth model perspective has been critiqued elsewhere (Baccaro & Pontusson, 2016; Barnes, 2015; Casey, 2014; H. Thompson, 2013). Whilst these contributions have generally critiqued the growth model perspective from a comparative perspective, the argument here advances a state-theoretical critique of the literature.

economic institutional forms - in other words those institutional frameworks within which growth models are embedded but which cannot be reduced to the 'logic' of the growth model itself[19] - were cruical to stabilising Britain's pre-crisis model of capitalism. Second, and relatedly, the literature employs a *limited and inadequate conception of the state* in the sense that it analytically privileges forms of state intervention which were 'functional' to - or in other words actively facilitated - the financialisation of the British economy throughout the pre-crisis conjuncture. As a result, the literature tends to understate the role that alternative modes of state intervention - in particular the expansion of spending on public services in New Labour's second and third terms - played in stabilising, legitimising and sustaining Britain's model of capitalism throughout the pre-crisis conjuncture. This limitation is evident in two distinct sub-currents of the 'growth model' perspective. One current – characterised here as the 'critical institutionalist' approach - analyses Britain's pre-crisis model of capitalism at the 'macro-scale' in the sense that it seeks to identify and critique the overriding distributional logic of Britain's finance-led growth model (Crouch, 2011; Hay, 2013b; see also: Streeck, 2014a). Insofar as this approach acknowledges a relation between the state and 'privatised Keynesianism', it tends to focus on the ways in which government policies actively facilitated the growth of private debt, encouraged rising consumer credit and deepened financial deregulation.

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[19] It is useful to think of the 'economic' / 'extra-economic' distinction as primarily an analytical rather than ontological distinction. The 'economic' sphere refers broadly to those patterns of production-consumption-distribution which prevail in a given society. However, these developmental patterns are always embedded within and shaped by 'extra-economic' institutions. For example, the labour process is not determined purely through the price mechanism but is also strongly conditioned by social and political practices on the ground (Peck, 1994). Similarly, 'extra-economic' institutional forms are typically shaped by 'economic' conditions. For example, the birth rate often falls in developing economies when GDP per capita growth increases. This distinction between the 'economic' and 'extra-economic' is useful from the perspective of this thesis because it allows us to move beyond the weaknesses of the growth model perspective and in particular its limited conception of how capitalist stability is secured over time. This point is expanded upon further in Chapter Three.

This means that the 'critical institutionalist' approach understates the crucial role that *alternative forms of state intervention* played in stabilising British capitalism throughout the pre-crisis conjuncture.

The other current in the literature – characterised here as the 'post-structuralist' approach – focuses primarily on the 'micro-foundational' scale and examines the way in which government policies attempted to cultivate a series of 'financialised subjectivities' through the deployment of 'Asset-Based Welfare' (ABW) programmes, financial literacy drives and a range of other initiatives (Finlayson, 2008; Langley, 2007; Watson, 2010, 2013). However, this approach again disproportionately focuses on the role played by the government in facilitating financialisation processes. As a result, it too systematically understates the way in which alternative patterns of state intervention worked to stabilise Britain's pre-crisis model of capitalism. A major 'blind spot' of the growth model perspective is therefore that it deploys *a limited conception of the state* which privileges analytically patterns of state intervention which were functional to financialisation processes throughout the pre-crisis conjuncture. As such, the growth model perspective stands in need of further development. Let us first take each body of literature in turn.

Critical Institutionalist approaches

The 'critical institutionalist' current in the literature is best represented by contributions from Crouch, Hay and Streeck (Crouch, 2011; Hay, 2013c; Streeck, 2014a). Although these scholars deploy distinctive arguments about the nature of Britain's pre-crisis growth model, their work shares three broad premises. First, as we have seen above, all three deploy the conception of 'privatised Keynesianism' to characterise Britain's pre-crisis growth model. Second, each therefore attributes a central role to rising *private indebtedness* as essential to (temporarily) resolving difficulties which otherwise might have acted as a drag on economic growth in the pre-crisis conjuncture. Third, each consequently tends to emphasise how financialisation[20] – the growing importance of financial market institutions and the expansion of credit to firms and households – drove economic expansion throughout this period (Epstein, 2005: 5). However, this approach has a fourth, related dimension which has not been recognised thus far in the literature. This is that insofar as these contributions identify a relation between *the state* and Britain's pre-crisis growth model, they tend to analytically privilege forms of governmental intervention which actively extended and consolidated the above three 'financialisation' processes. However, as shall be argued below, this means that 'critical institutionalist' analyses contain a number of blind spots which stand in need of correction.

As we saw in the previous section, Crouch's depiction of the PKT essentially relies upon an under-consumptionist premise (Bleaney, 1976). Crouch argues that wage constraint and welfare residualism throughout the neoliberal period negatively impacted on workers' spending power and on their economic security. These trends acted as a latent brake on consumption and on economic growth. As a result, Britain's finance-led growth model would have been undermined were it not for one crucial dynamic: the rapid expansion of private debt to households and firms from the late 1980s onwards (Crouch, 2009: 390). As Crouch writes, "two things came together to rescue the neo-liberal model from the instability that would otherwise have been its fate: the growth of credit markets for poor and middle income people, and of derivatives and futures markets among the very wealthy" (Crouch, 2011a: 114). Crouch goes on to argue that "there was [therefore] a *market* solution" to neoliberalism's tendency to produce structural shortfalls of aggregate demand (Crouch, 2008: 482).

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[20] Although they do not use the word prominently themselves, this phrase accurately captures the processes which each scholar identifies as crucial to economic growth in the pre-crisis conjuncture.

This argument undoubtedly captures a crucial aspect of Britain's pre-crisis model of capitalism. However, there is a potentially serious shortfall in Crouch's formulation. Private debt expansion for Crouch served two related functions. First, as the above summary suggests, it played a crucial *systemic role* in underpinning aggregate demand and economic growth. In Crouch's terms, privatised Keynesianism (temporarily) satisfied "capitalism's own need for confident mass consumers" (Crouch, 2009: 382). Second, however, this expansion of credit also played a crucial *legitimation* function; it satisfied "democracy's need for stability for people's lives" (ibid.). In the absence of wage increases, financial liberalisation and easy access to credit became "collective goods" for citizens who were seeking to sustain their living standards and gain access to a (rapidly appreciating) housing market (ibid: 394). As such, "the collective and individual interests of everyone [became] tied to the financial markets" (Crouch, 2011a: 116). The promise of rising living standards and continued access to consumer goods do indeed remain crucial sources of legitimation within advanced capitalist societies - and particularly within Anglo-America (Montgomerie, 2007).[21] The problem is that Crouch's account of the role of the state in sustaining the regime of 'privatised Keynesianism' stops at this point. This is because - according to Crouch - the autonomy of the nation state had been largely "eroded" by the late 1980s as a result of globalisation (Crouch, 2004, 2009: 388). Insofar as the state's role is acknowledged at all in relation to 'privatised Keynesianism', it is only insofar as it operates in line with the preferences of international creditor institutions - for example through attracting inwards investment or through preventing 'capital flight' (ibid: 389), by implementing (market conforming) counter-inflationary policy (ibid: 391), or by pump-priming asset markets in a situation where prices slump (ibid: 392). In other words, Crouch ascribes little relative autonomy to state actors. As a result, the forms of state intervention

[21] Furthermore, as we have seen, financial deregulation, credit expansion and low interest rates did together play a crucial role in sustaining household consumption throughout the pre-crisis conjuncture (Engelen et al., 2011; E. Shaw, 2012).

which he does highlight are largely ‘functional’ to the reproduction requirements of the dominant finance-led growth model.

However, this is an unconvincing argument. It is underpinned by an inadequate conception of state power in general and an incomplete conception of the role of the state in sustaining pre-crisis British capitalism in particular. The legitimacy of Britain’s pre-crisis model of capitalism did not depend only on the expansion of private credit to workers and the growth of complex financial derivatives for the wealthy. Rather, as shall be argued in the following two chapters, discretionary government interventions played a crucial role in channelling material concessions and symbolic rewards to social groups who might otherwise have been excluded from the benefits of ‘privatised Keynesian’ expansion. Furthermore, these interventions were not just the result of external pressures from international creditor institutions or the ‘demands’ of the global market: rather they were driven by a range of internal party political and electoral pressures which drove New Labour to expand state spending substantially throughout the pre-crisis conjuncture. The proposition that ‘privatised Keynesianism’ was the key mechanism which secured the legitimacy of Britain’s growth model is therefore incomplete: alternative patterns of state intervention were also crucial to stabilising and legitimising British capitalism throughout the pre-crisis conjuncture.

This tendency to privilege analytically forms of state intervention which were ‘functional’ to financialisation processes is also evident in Hay’s conception of the ALGM (Hay & Wincott, 2012; Hay, 2010a, 2013c). Hay’s analysis emphasises a number of forms of state intervention which were crucial to the emergence and consolidation of ‘Anglo-liberal’ capitalism in Britain (Hay, 2013c). For example, he emphasises the way in which the ceding of operational independence to the Bank of England, the emergence of a “low interest rate, low inflation equilibrium” and the ‘liberalising’ disposition of Anglo-liberal policymaking elites were crucial preconditions of the ALGM

(Hay, 2013a: 11). In combination, these policies produced a context within which 'privatised Keynesianism' emerged in the pre-crisis conjuncture.[22] However, Hay's formulation remains incomplete and stands in need of further development. As was the case with Crouch, his focus on the relationship between state intervention and financialisation processes means that he understates the way in which alternative logics of state intervention played a crucial role in sustaining Britain's pre-crisis model of capitalism.

This can be seen if we consider the remarkable *durability and stability* of Britain's model of capitalism throughout the pre-crisis conjuncture. Between 1992 and 2007, Britain experienced a period of sustained economic growth and falling unemployment. As will be argued in the following chapter, such periods of relatively stable expansion cannot be explained through an appeal to 'economic' variables alone (Aglietta, 1976; Boyer, 1990; MacLeod, 1997; Peck & Theodore, 2007). Rather, stable phases of accumulation can take place only insofar as these processes are embedded within a broader social framework which complements and stabilises economic expansion over time (Jessop, 2013b). The implication of this is that when we interrogate different phases of capitalist development, we need to ask the question: *what were the specific institutional complexes, social relations and patterns of state intervention which made stable growth possible throughout the conjuncture in question?* It is here where the growth model perspective offers only a limited and partial answer. Hay's argument implicitly appeals to two channels through which 'privatised Keynesian' growth was stabilised and reproduced throughout the pre-crisis conjuncture. First, he attributes the durability of Britain's pre-crisis model of capitalism to processes and mechanisms which were largely *internal* to the dominant finance-led growth model. For example, he writes, "for so long as a low inflation-low interest rate

[22] In this way, Hay provides a compelling account of the *political* preconditions of 'privatised Keynesianism' in Britain. In particular, he opens-up the space to politicise those state policies which facilitated the emergence of Britain's unstable growth model.

equilibrium persisted, a virtuous and seemingly self-sustained growth dynamic endured. This is what drove the growth model" (Hay, 2013a: 13). He goes on to state that, "it appeared that a virtuous cycle had been established, in which the preconditions of growth were *mutually reinforcing*" (Hay, 2013a: 12).[23] Hay identifies a number of specific mechanisms which ensured that stable accumulation could continue throughout this period. For example, he points out that a sustained period of low interest rates created a disincentive for households to save. This – in a context of easily available credit – drove more individuals to take on mortgages, which in turn drove up the value of the housing market (Hay, 2013a: 11). This trajectory of rapid house price inflation further boosted the wealth effect for homeowners, raising their consumption levels and driving economic growth. As such, insofar as Hay seeks to account for the relative stability and (temporary) success of 'Anglo-liberal' growth, he appeals to mechanisms which were largely *internal* to the finance-led growth model. As a result, alternative patterns of state intervention are largely excluded from the analysis.

The argument here is not that state-facilitated financialisation was not in evidence throughout this period. It clearly was – and these dynamics were clearly hugely important (Davis & Walsh, 2015). However, Hay's focus on the relation between (state-facilitated) credit expansion, the housing market and equity-fuelled consumption leads him to understate the key role that alternative logics of state intervention played in incorporating subordinate social groups into the dominant growth model. To briefly take two examples, the consolidation and expansion of 'privatised Keynesianism' in the 2000s was paralleled by the largest real terms expansion in spending on public services – in particular on health and education – in the postwar period (Smith, 2014: 618). As a result, 700,000 new jobs were created in the public sector under New Labour (Cribb et al,. 2014: 7). Similarly, (relative) child poverty rates fell from 3.4 million in 1998 to 2.3 million in 2010, largely as a result of

[23] Emphasis added.

targeted tax credits and through the deployment of various redistributive mechanisms (Hope, 2015). However, these developments cannot be explained by the 'internal' developmental logic of 'privatised Keynesianism' alone. Rather, as will be argued in the following two chapters, these developments were driven by a distinctive legitimation strategy, or 'One Nation' hegemonic project, under New Labour (Jessop, 1990). This dynamic sought to channel (to a limited extent) material concessions and symbolic rewards to social groups which might otherwise have been excluded from the dividend associated with finance-led growth. At various points, Hay does acknowledge the way in which the ALGM was flanked and "supported by high levels of public expenditure" (Hay, 2013a: 12). However, after pointing this out, he immediately returns to the "basic precondition" of finance-led accumulation: namely 'easy access to credit linked to a rising property market'. The danger is that Hay's analysis of Britain's growth model isolates those forms of state intervention which were functional to - or actively facilitated - financialisation processes whilst downplaying those counter-tendencies and 'flanking mechanisms' which were essential to securing the stability British capitalism throughout the pre-crisis conjuncture. In order to further develop the growth model perspective, then, the conception of *the state* and its relationship to Britain's growth model needs to be developed further. This alternative conceptualisation will be offered in the following chapter.

'Post-structuralist' approaches

What is termed here the 'post-structuralist' current within the growth model perspective is best represented by contributions from Alan Finlayson, Paul Langley and Watson[24] (Finlayson, 2008, 2009b; Langley, 2007, 2008; Watson, 2009a, 2009b, 2010,

[24]It is perhaps inappropriate (or even unnecessary) to 'label' Watson as a post-structuralist. However, for the purposes of this section he is placed in this camp, in part because he explicitly deploys the Foucauldian conception of 'governmentality' within the cited pieces and partly because his empirical work on ABW accords with the approach generally deployed by scholars of a post-structuralist orientation.

2013). This literature argues that financialisation is not simply a 'macro-structural' phenomenon, driven for example by the globalisation of 'finance capital' or by increased capital flows across national borders (Finlayson, 2009a: 402; Langley, 2007: 7). Rather, financialisation is conceived as a process which involves the emergence and cultivation of distinctive 'investor subjectivities' at what could be termed the *micro-foundational* scale (Finlayson, 2009b: 402; Langley, 2007: 75; Watson, 2010: 415). With its focus on the promotion and development of 'investor subjects', the literature seeks to capture the way in which individuals increasingly conceive of themselves as 'savers' or 'investors' and change their 'everyday' practices and spending habits in accordance with these roles (Watson, 2008: 584; see also: French et al., 2011: 804). However, this approach does not only seek to *describe* these 'micro-foundational' financialisation processes. It also aims to explain how the construction and expansion of everyday 'investor subjectivities' reinforces unequal power relations and contributes to the emergent structure of global financial markets (Langley, 2008; see also: Seabrooke & Hobson, 2007).

The literature makes two broad arguments in this regard. First, whilst government departments, financial sector institutions and consultancy firms have presented the growth of consumer credit and spiralling mortgage debt as instruments which 'empower' citizens, post-structuralists argue that the growth of these instruments tends to (re)produce unequal power relations and entrenches new forms of social control (Finlayson, 2009: 415; Langley, 2007). For example, systems of 'asset-based welfare' (ABW) – where citizens are encouraged/disciplined to provide for their future welfare needs through securing access to the stock and property markets – are *presented* as essential means to achieving 'security' and independence from the state in later life (Prabhakar, 2008; Watson, 2010: 416). However, this 'liberation' from dependence on government welfare (for example through reliance on the state pension) simultaneously reinforces new patterns of dependence and exposes citizens to the uncertainties which are inherent to international financial markets (Langley, 2007; Watson, 2010). In this context of protracted welfare residualism and radical uncertainty, 'rational' citizens will increasingly discipline and govern *themselves* in line with a dominant 'financialised' logic: they will internalise 'risk management' techniques, withhold on current consumption and modify their spending behaviour so as to 'prudentially' accumulate assets (Watson, 2009a). As such, ABW encourages the 'government of the self by the self'; individuals gain the formal freedom to expand their investment portfolios but at the same time they are compelled to govern their behaviour in line with the dominant market rationality (Watson, 2009a, 2010: 415). Second, the literature emphasises how these self-disciplining mechanisms do not simply emerge as a result of dis-embedded 'market processes'. Rather, these processes are actively cultivated by government. Through the construction of 'ideal typical' welfare citizens - for example the conception of the worker who 'prudentially' invests in order to build-up savings for later life - governments design incentive structures and deploy a range of governing techniques which encourage the emergence of 'financialised' patterns of behaviour and modes of conduct (Finlayson, 2008: 103). As such, the state increasingly plays "not only a supervisory role in relation to the market but also *stimulates, promotes and shapes subjects* who, self-consciously and responsibly, further their own freedom and security through the market in general and the financial market in particular" (Langley, 2007: 11).

The post-structuralist current in the 'growth model' literature identifies a number of policy tools and governing rationalities which emerged in Britain in the pre-crisis conjuncture and which conform to the logic outlined above. For example, Finlayson draws attention to one flagship ABW policy - the Child Trust Fund (CTF) - which was announced in Labour's 2001 manifesto and which came into effect in January 2005 (Finlayson, 2009: 402). The CTF provided households with a sum of money which was directed towards a savings account and which children could draw upon once they reached the age of eighteen (Finlayson, 2008). One core goal of the policy was to inculcate the 'savings habit' from an early age and to encourage 'financial literacy' amongst young people and their families (HM Treasury, 2001). Finlayson argues that the objective of the CTF - as with other forms of ABW - was therefore to bring about "the creation of good investors and good customers of the financial services industry, in possession of the wherewithal to save, which will in turn aid them in focusing on the kinds of economically productive risk taking ... the CTF is a policy concerned to change the behaviour of the poor through incentives and selective education " (Finlayson, 2008: 104). Langley, in a number of contributions, has advanced a similar argument which draws attention to the constitution of new 'investor subjects' by Anglo-American governments and finance firms (Langley, 2007, 2008). For example, he identifies how declining state contributions to UK pension funds - and their indexation to inflation as opposed to earnings - occurred in line with a concerted 'financial literacy drive', which aimed "to reach out to those five to eight million low/ middle-income individuals that are not currently saving for their own retirement" (Langley, 2007: 17). Both Langley and Finlayson therefore identify areas where government played a crucial role in encouraging financialisation at the 'micro-foundational' scale. The logic underpinning these state interventions is clear: "[investor] citizen subjectivities have been actively encouraged as a means of exposing more and more people to a brand of financialised capitalism with a view to integrating them within its structures" (Watson, 2009a: 204). The state, in the post-structuralist conception, therefore plays a key integrative role in the sense that it seeks to shape social practices and cultural norms so as to incorporate households into the dominant finance-led growth model.

This approach makes a valuable contribution to the literature because it captures the way in which financialisation is not simply a structural process which is 'imposed' on unwitting subjects from above. Rather, the cultivation of "investor subjectivities and financially self-disciplined subjects" is an inherently provisional and partial process which is always mediated (and potentially contested) by actors 'on the ground' (French et al., 2011). It is made possible through the deployment of specific governmental programmes and through the corresponding internalisation of certain norms and attitudes in the 'everyday' practices of individual citizens. However, despite their attentiveness to the 'micro-foundational' scale, it is notable that these contributions - at least insofar as they seek to contribute to the IPE literature on finance - tend to frame the processes which they identify as complementary to broader processes of financialisation understood at the 'macro' scale. For example, Finlayson explicitly states that, "financialisation... is an aspect of global markets and of the internal operation of the firm. But it *also* has an individual or household dimension" (Finlayson, 2009: 401). Similarly, Watson's work has been particularly explicit in attempting to connect the micro-foundational constitution of 'financialised subjects' with broader, macro-structural shifts in the UK's growth model (Watson, 2008, 2009a, 2010, 2013). For example, he specifically identifies the emergence of ABW and corresponding financial literacy drives as key elements of Britain's changing socio-economic model in the pre-crisis conjuncture (Watson, 2008: 586, 2009b: 42). However, he then directly connects these micro-foundational processes with what he terms the emergence of a regime of 'house price Keynesianism' (Watson, 2010).[25]

Watson's synthesis of the 'micro-foundational' dimensions of financialisation with a broader conceptualisation of the UK's growth model provides us with a compelling framework through which to understand New Labour's political economy. In particular, it uncovers a series of deep internal tensions which underpinned Britain's pre-crisis growth model. For example, Watson argues that the 'investor subjectivities'

[25] This phrase - as Watson acknowledges - is directly influenced by and derivative of Crouch's conception of 'privatised Keynesianism' (Watson, 2010).

encouraged through New Labour's ABW approach were based on a distinctively 'Smithian' conception of 'prudence' - one where the individual parsimoniously withholds on current consumption and invests their savings in the productive process (Watson, 2008: 582, 2009a). However, in a context of 'privatised Keynesianism', savers were encouraged to increasingly channel their savings into a rapidly appreciating housing market. Indeed, as Engelen and his collaborators have shown, before the 2008 crash, 79% of all British bank lending was accounted for by lending on residential and commercial property and related assets (Engelen et al., 2011: 206). As such, the 'prudential' investor subject - insofar as she was compelled to channel her savings into what was effectively a large and unsustainable housing bubble - contributed to a bout of 'collective irresponsibility' which ultimately derailed the British economy (Watson, 2010).

Watson's analyses make important contributions to both the 'post-structuralist' approach outlined above and to the broader political economy literature on 'privatised Keynesianism' in Britain. However, his attempt to synthesise the 'micro' and the 'macro' dimensions of the Britain's growth model is also limited in its explanatory potential. Watson acknowledges as much himself. For example, he states that his analysis of the new 'worker-saver-investor' subject is placed at a "high level of abstraction" (Watson, 2010). He points out that his argument identifies:

> the *emergent properties of a newly constituted, but still merely tendential*, relationship between the model homeowner, the model welfare recipient and private financial institutions… the argument is not that this relationship now dictates the content of everyday economic experiences for everyone in the UK, only that the trajectory of recent policy changes renders exposure to this relationship much more likely.
>
> (ibid.)

This qualification is important. Although the system of ABW is presented as effectively incorporating sections of the population into the dominant finance-led growth model, Watson acknowledges that this dynamic is an emergent tendency or trend rather than a fully-fledged system (Watson, 2010: 415). Watson goes on to comment that the ABW conception "depicts a process that will forever be in the making and which can never be complete when viewed in aggregate across the whole of society" (ibid.). The implication of this is that large sections of the population are not included within Watson's formulation. This has broader implications for the extent to which accounts of ABW, 'financial literacy' drives and the cultivation of 'investor subjectivities' in general can explain the development of the dynamic tensions which underpinned Britain's model of capitalism in the pre-crisis conjuncture. As Watson acknowledges, "many people remain excluded from the trend due to a basic lack of access to resources. This means that the image of a fully realised asset-based system of welfare is still only an *ideal-type*" (Watson, 2009a: 204). Watson's analysis - as well as the more explicitly 'post-structuralist' approaches as articulated by Finlayson and Langley - is therefore limited in the kind of questions which it asks and in the kind of answers which it can provide.

Three specific limitations are worth briefly stating here. First, if we acknowledge that ABW systems only 'incorporated' certain sections of society into the dominant finance-led growth model, then the question remains: how were those social groups which were largely *excluded* from asset-ownership programmes integrated into Britain's pre-crisis model of capitalism? The ABW might identify one 'logic of incorporation' but it fails to provide an adequate explanation of how subordinate social groups - many without access to assets - were integrated into Britain's model of social and economic development in this period. Second, there is a danger that the methodological focus on the construction of 'ideal' welfare citizens as 'financialised subjects' in government documents isolates (and potentially exaggerates the importance of) policies which were overtly 'functional' to financialisation processes whilst ignoring other mechanisms which were also in place in this period. For example, as noted above, the CTF has been widely cited as a flagship example of ABW. However, if we look at actual spending on the CTF it came in at £296 million in 2008-2009 (HM Revenue and Customs, 2013). In contrast – to take but one example – in the same financial year, £885 million was spent on Sure Start Centres, another policy field directed towards benefiting children from low income families but which was underpinned by more traditional welfare goals (Glass, 1999; NAO, 2009: 4; Shaw, 2007). Again, the risk is that the importance placed on the cultivation of new 'investor subjects' in the post-structuralist literature is overstated whilst alternative logics of incorporation and legitimation are unduly ignored. Third, the narrow focus on governing 'rationalities' and subjectivities means that post-structuralist accounts struggle to explain why for extended periods of time capitalist expansion assumes a relatively coherent and stable form. As highlighted above, the 'pre-crisis conjuncture' represented a decade and a half of steady economic expansion between 1992 and 2007 in Britain (McMorrow & Roger, 2007). A narrow focus on the relationship between idealised welfare subjects and financialised economic growth cannot adequately capture the ways in which economic expansion is sustained in such periods. Therefore, in order to explain the relative stability of finance-led growth in the pre-crisis conjuncture, a more expansive and holistic understanding of state intervention in the economy is needed.

The central problem with post-structuralist approaches is the same as the one which was identified in the 'critical institutionalist' approach outlined in the previous section: insofar as these approaches acknowledge a relation between the state and Britain's growth model, they tend to privilege analytically those forms of intervention which were 'functional' to financialisation. As Finlayson has acknowledged, the government policies which are analysed in the ABW literature have "*as their primary* *goal*... the *incorporation* of individuals within the mainstream financial system" (Finlayson, 2009: 408). As Brasset, Rethel and Watson have written in the introduction to an important special issue on the subject, financialisation is often conceived as a process "that strives for societal *incorporation* into its economic structure via the pricing trajectory of asset bubbles" (Brassett, Rethel, & Watson, 2009: 379). Crucial to this conception, then, is the argument that state interventions had an intended integrative effect; they sought to incorporate citizens into the dominant finance-led growth model through encouraging the emergence of certain behavioural traits, cultural norms and social practices. The core argument advanced here is *not* that there is no evidence for these governing practices or that ABW did not amount to a coherent - if somewhat limited - governing strategy. Rather, the argument is that an exclusive focus on these aspects of Britain's growth model unduly restricts analysis to forms of state intervention which actively promoted, cultivated and facilitated 'financialised' dynamics, whether at the 'macro' or the 'micro-foundational' scale. As will be argued in the following chapter, a broader conceptualisation of the state which accounts for the ways in which it is typically oriented towards securing a range of divergent social and political objectives allows us to move beyond the latent functionalism of the existing growth model perspective.

2.6 Conclusion

This chapter has reviewed and critiqued a body of literature which emerged in the aftermath of the 2008 financial crash in Britain. This literature - characterised here as the 'growth model perspective' - argued that the crash was not caused by government profligacy or simply by an 'exogenous shock' on the financial markets. Rather the economic crisis and the recession which followed represented the breakdown of a distinctive 'finance-led' growth model within Britain. The chapter has provided an analysis of the historical emergence of this growth model and has examined some of its key features in what was termed the 'pre-crisis conjuncture'. This was a period where the British economy generated relatively stable economic growth, low levels of unemployment and consistently low rates of inflation. The PKT is useful insofar as it outlines how this seemingly robust period of economic expansion was in fact premised upon a series of deep internal imbalances and structural weaknesses within the British economy. In particular, rising levels of household debt, relatively stagnant wages, a dominant financial sector, a weak revenue base and growing inequalities were all features of 'privatised Keynesian' expansion (Lavery, 2016). In combination, these rendered the economy particularly exposed to the GFC which unfolded in 2008. The PKT therefore provides us with a compelling account of the failures of Britain's distinctive model of capitalism in the pre-crisis conjuncture (Hay, 2013c).

However, it was argued that the PKT literature and the growth model perspective in general are also limited in a number of respects. Both the 'critical institutionalists' and 'post-structuralists' who have contributed to the growth model perspective tend to privilege analytically forms of state intervention which were 'functional' to financialisation processes in Britain. Whilst the former emphasise the way in which central state institutions encouraged financialisation at the 'macro' scale - for example through capital market liberalisation or through financial deregulation - the latter tend to focus on the way in which governments sought to construct and cultivate 'financialised subjects' at the 'micro-foundational' or 'everyday' scale of analysis. As such, both of these approaches advance a *limited conception of the state* which unduly neglects the way in which alternative patterns of state intervention served to stabilise and sustain Britain's model of capitalism throughout the pre-crisis conjuncture. The following chapter will advance an alternative conceptualisation of the state which can remedy some of the weaknesses of the existing growth model perspective whilst building upon the core insights of this literature. This alternative conceptualisation will then form the basis for the subsequent empirical chapters which examine the political-economic strategies of New Labour and the Coalition respectively.

3. Theorising Capitalist Stability: Regulation, Hegemony and the State

> In the last analysis, the state is permanently subject to two contradictory imperatives: on the one hand, supporting accumulation; on the other legitimising existing social relations.

(Boyer, 1990)

3.1 Introduction

The central aim of this thesis is to determine the extent to which the Coalition's political economy represented a continuation of, or a rupture with, the political economy of New Labour. This chapter sets out the conceptual framework which will be deployed in order to answer this question. It begins from the critique which was advanced in Chapter Two; that existing treatments of Britain's pre-crisis growth model analytically privilege forms of state intervention which were 'functional' to or actively facilitated financialisation processes. As was argued there, this means that the growth model perspective is limited in two respects. First, insofar as it does provide an explanation of how British capitalism was stabilised throughout the pre-crisis conjuncture, it tends to appeal to those mechanisms which were *internal* to the dominant finance-led growth model. In other words, the approach tends to neglect the ways in which 'extra-economic' institutions can play a crucial role in stabilising accumulation processes over time. Second, and relatedly, the growth model perspective deploys a limited conception of the state insofar as it tends to focus on the ways in which economic policy actively privileged certain economic sectors and 'financialised' subjectivities over others throughout the pre-crisis conjuncture.

However, the result of this is that the literature misses the ways in which the state is typically oriented towards securing a range of divergent - and often conflicting - social objectives. In particular, the literature tends to neglect the ways in which advanced capitalist states are typically oriented to securing *legitimation* over time (Offe, 1984).

In light of these limitations, the chapter advances an alternative theoretical framework which goes beyond the narrow conception of the state deployed by the existing growth model perspective. This alternative conceptual framework draws upon two distinct but related bodies of literature. First, a range of regulationist approaches are reviewed and critically developed. The Regulation Approach (RA) is useful because it explicitly attempts to theorise the ways in which economic growth can take place only insofar as it is embedded within and supported by a range of 'extra-economic' institutional forms. A reformulated regulationist approach can therefore provide a more compelling conception of how stability can be (temporarily) secured in advanced capitalist societies than the existing growth model perspective. Second, the chapter draws upon Gramscian and neo-Marxist state theory. In particular, it is argued that the growth model perspective's focus on the *accumulation strategy* deployed by policymakers should be complemented by an account of the legitimation strategies or 'hegemonic projects' deployed by policymakers seeking to secure broad-based support within society (Jessop, 1990: 216). It is argued that distinguishing analytically between these two alternative forms of state intervention allows us to go beyond the limitations of the existing growth model perspective and to thereby account for continuity and change more effectively between the pre- and post-crisis conjunctures.

The chapter is composed of three sections. The first section provides a critical overview of the original Parisian 'Regulation Approach' (RA). It is argued that the RA provides us with a useful framework which improves on the 'growth model' perspective insofar as it draws attention to the ways in which stable accumulation can take place only insofar as it is embedded within a complementary 'extra-economic' institutional framework. However, a number of limitations of the early RA are also identified. The second section then reviews two approaches – British Regulation Theory (BRT) and the 'Variegated Neoliberalisation Approach' (VNA) - which emerged as successors to the original regulationist paradigm. It is argued that the VNA provides us with a useful framework for conceptualising the often contradictory patterns of state intervention in the UK across both the 'pre' and the 'post-crisis' conjunctures. However, the VNA is also marked by a number of weaknesses, including its failure to adequately conceptualise central state institutions, to engage with questions of distribution or to provide an adequate explanation of how advanced capitalist economies are stabilised over time. As such, the third section advances an alternative approach which can be usefully integrated with both the growth model and RA/VNA perspectives. This approach draws on neo-Marxist state theory and draws attention to the ways in which state actors typically pursue distinctive *legitimation strategies* as they seek to secure and expand their base of support within society. State actors typically seek to secure this objective through three mechanisms: through the pursuit of distinctive *governing strategies,* through shaping *distributional processes* and through the *strategic deployment of ideas.* The chapter then concludes by drawing these various arguments together, before outlining how the distinction between 'accumulation' and 'legitimation' strategies can be usefully deployed to conceptualise processes of continuity and change within post-crisis British capitalism.

3.2 The Regulation Approach: Theorising Capitalist Stability

The Regulation Approach (RA) can be usefully drawn-upon for the purposes of this thesis because it overcomes some of the weaknesses of the growth model perspective which were identified in the previous chapter. The RA is a theory of capitalist development which emerged in the late 1970s within Europe. It was originally associated with the 'Parisian School' of regulation theorists, which included Michel Aglietta, Alain Lipietz and Robert Boyer amongst others (Aglietta, 1976; Boyer, 1990; Lipietz, 1987).[26] The RA originated as a critique of both neoclassical economics and of orthodox Marxist theories of capitalist development and crisis(Boyer, 1990; Jessop, 2007a: 505).[27] Although the RA advances a number of critiques of the neoclassical paradigm, its principal objection is to the latter's assumption that 'the economy' can be understood as a disembedded sphere which operates according to a distinctive, universal and *self-equilibrating* 'market logic' (Boyer, 2002: 4; Dowd, 2004: 85).[28]

The RA challenges the assumptions which underpin the neoclassical paradigm on two grounds. First, it argues that the neoclassical paradigm erroneously assumes that the logic of 'the market' can be understood in abstraction from the broader social and historical context within which economic activity is embedded (Boyer, 2002: 3; Hollingsworth, 1997). For example, neoclassical economics assumes that all 'factor inputs' - the component elements of productive activity including land, labour and capital - are commodities whose value is determined through the price mechanism. However, regulationists argue that this fails to take into account the many ways in which various 'non-market' logics shape and condition economic development. For

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[26] For a comprehensive five volume compendium of Regulation Theory see (Jessop, 2001)

[27] For a critical overview of the neoclassical paradigm see (Dowd, 2004; Hunt & Sherman, 1986)

[28] The neoclassical paradigm rests on a number of assumptions regarding the motivations of market actors and the coordinative capacities of the market mechanism. For example, it assumes that households and firms always act 'rationally', that market participants aim exclusively to maximise their utility, that markets are freely competitive and that the state stands 'outside' of the economic process (Boyer, 2002: 4; Dowd, 2004: 85). With these assumptions in place - and through the utilisation of complex modelling techniques - the neoclassicals aim to demonstrate that markets tend towards *general equilibrium* (Boyer, 2002: 4; Watson, 2014).[28] The neoclassical approach therefore rests on two core assumptions: that unfettered markets tend to 'self-stabilise' (for example through the coordination of supply and demand) and that the economy can therefore operate at full capacity only when the market acts as the principal mechanism of resource allocation.

example, the cost of labour power is rarely, if ever, determined solely by market forces but also by *power relations* at both the 'shop floor' and state levels (Castree et al., 2003; Peck, 1996). Second, and relatedly, the RA rejects the claim that market processes are capable of securing 'equilibrium' and stabilising capitalist development over time. Rather, the RA insists that stable economic expansion is possible only insofar as market processes are embedded within an institutional framework which can secure the conditions for continued accumulation and social reproduction over time.[29]

As well as rejecting neoclassical economics, the RA also advances a critique of orthodox Marxist theories of capitalist development and crisis. The RA challenges the proposition that capitalist development can be understood as the result of 'immutable laws' governing the economy (Bertramsen et al., 1991: 67; Boyer, 1990). For example, whereas some adherents of structural Marxism have viewed reproduction (the expansion of capital through the production, circulation and re-investment process) as a quasi-automatic feature of the capitalist mode of production (Althusser, 2014), regulationists emphasise the key role that institutions and strategic action play in securing the conditions for continued capitalist development (Jessop, 2013: 7). Similarly, whereas some orthodox Marxists have explained economic crisis in terms of immutable laws of accumulation[30], the RA emphasises the ways in which economic crises are never just 'given' but must be interpreted by social actors and mediated through the institutional apparatus of the state (Hay, 1995: 395). This introduces an element of contingency into the relationship between capitalism and crisis insofar as it suggests that a range of crisis 'diagnoses' are in principle possible in the aftermath of an economic downturn (Hay, 1999b: 334). In turn, this suggests that numerous

[29] For example, the long post-war boom - a period in which the advanced capitalist societies experienced rapid economic growth and falling unemployment - was not the outcome of unbridled market competition and *laissez faire* economic policy (Aglietta, 1976). Rather, it was the outcome of a social and political settlement which generated rising productivity and economic growth, full (male) employment and increased living standards across the West.
[30] For example theories which appeal to the 'tendency for the rate of profit to fall'.

political responses to such a breakdown are always available but that these can become mobilised only when contending social forces struggle over the *meaning* and *construction* of the crisis itself (Hay, 1999b; see also Jenson, 1990). In these ways, although the RA itself embodies a leading example of neo-Marxist political economy, it tends to place far greater emphasis on the role that institutions, social forces and strategic action play in sustaining or frustrating accumulation dynamics over time (Dunford, 1990; Jessop & Sum, 2006).

In contrast to both neoclassical and orthodox Marxist approaches, then, the RA emphasises the *instituted nature of economic action* insofar as it rejects the notion that the economy embodies an autonomous logic which operates independently of social agents (Jessop, 1997: 564; MacLeod, 2001: 1157). Rather, the RA insists that phases of economic expansion are possible only insofar as accumulation is embedded within supportive institutional complexes (Bertramsen et al., 1991). Therefore, rather than focussing on the trans-historical features of capitalism 'in general', the RA develops a systematic framework for conceptualising *temporally and spatially specific* capitalist social relations across particular historical conjunctures (Becker & Jäger, 2012: 172). To this end, the RA introduces three intermediate concepts which help to account both for the instituted nature of economic action and for the mechanisms through which capitalist stability might be (temporarily) secured in different phases of its development (Bertramsen et al., 1991: 66; Jessop, 1997: 288).

First, it deploys the conception of an *accumulation system* (Peck & Tickell, 1995: 357). This is defined as a "macro-economically coherent production-consumption-distribution relationship" (Peck & Tickell, 1994: 286). An accumulation system can be said to be in evidence when the macroeconomic elements of a given growth model align in such a way as to reproduce distinctive distributional regularities over time (Dunford, 1990: 305; Jessop, 2013). For example, under Atlantic Fordism, the expansion of real wages in line with productivity growth ensured that sufficient domestic demand was in place for newly produced economic output (Aglietta, 1976; Ruccio, 1989: 36). The institutionalisation of these economic relations produced the framework for a 'virtuous' cycle of sustained economic expansion throughout the immediate post-war period.

Second, the RA advances the conception of the *Mode of Social Regulation* (MSR) (Peck, 2003: 71). The MSR refers to the ensemble of 'extra-economic' institutional forms which can temporarily stabilise and accommodate the crisis tendencies of capitalist development within particular times and spaces (Boyer, 1990: 43; Kenny, 1999). By 'extra-economic' institutions regulationists mean those *modes of social organisation which are not directly oriented towards intervening within the sphere of production, consumption or distribution but which nonetheless play a crucial role in conditioning and stabilising economic development*. Regulationists have drawn attention to a wide range of social practices and institutional forms which together constitute the MSR. For example, the MSR has been defined by one regulation theorist as that, "ensemble of norms, institutions, organisational forms, social networks, and patterns of conduct that can temporarily stabilise an accumulation [system] ... despite the conflictual and antagonistic character of capitalist social relations" (Jessop, 2013: 8).[31] This conception of 'extra-economic' institutional forms is therefore necessarily very broad, as will be discussed below. For now it is worth noting that they include those

[31] A more specific conceptualisation of the MSR is also advanced in regulationist research, which isolates five distinctive 'institutional forms' through which the MSR is articulated: the wage relation, the money form, the mode of competition, the form of state, and the international orientation of the economy (Boyer, 1990: 37). The specificities of each 'institutional form' need not concern us here. The core point is that each represents a site within which the conflictual and antagonistic nature of capitalist expansion can be managed and/or temporarily displaced (Dunford, 1990: 301). For example, although the relation between capital and labour is potentially antagonistic, with each likely to have distinct preferences regarding the length of the working day and the intensity of the work process, across advanced capitalist societies distinct 'wage bargaining' and regulatory systems have typically emerged to help contain these potentially destabilising conflicts.

forms of social organisation which are not reducible to the price mechanism but which nonetheless form a crucial precondition of capitalist development.

Third, the RA advances the conception of *regimes of accumulation* (RoA). This refers to a situation in which the underlying accumulation system is effectively 'coupled' with a complementary MSR (Jones, 2002: 39; Tickell & Peck, 1995: 360). It is under these conditions, regulation theorists submit, that periods of stable capitalist expansion become possible (Jessop, 1997: 291). A functioning RoA can therefore be understood as a relatively coherent model of social and economic development which combines 'economic' processes with 'extra-economic' institutional forms and social practices so as to sustain accumulation over time (Howell, 2016; Jessop, 1997: 288). The core axiom of the regulationist paradigm is therefore that periods of relative stability should never be understood as the result of 'economic' processes alone. Rather, in examining such periods, scholars should focus on the *institutional nexus* which links together accumulation on the one hand with 'extra-economic' institutional forms on the other (Tickell & Peck, 1995: 360).

In terms of the argument of this thesis, the original RA begins to take us beyond the limitations of the growth model perspective insofar as it explicitly seeks to conceptualise the role that *'extra-economic' institutional forms* play in stabilising advanced capitalist development. From a regulationist perspective, Britain's finance-led growth model would be understood as equivalent to an *accumulation system* insofar as it identifies a particular relationship between distribution, consumption and private debt expansion throughout the pre-crisis conjuncture (Crouch, 2011; Streeck, 2014a). However, the RA insists that if this accumulation system is to be reproduced over time it must be embedded within an 'extra-economic' institutional context which is not itself reducible to the overall 'reproduction requirements' of the dominant growth model. This takes us away from the kind of questions which are typically asked by advocates of the growth model perspective. For example, as was argued in the previous chapter, insofar as Hay and Crouch attempt to explain how 'privatised Keynesianism' was stabilised, they tend to appeal to those mechanisms which were *internal* to the 'finance-led' accumulation system itself. For example, Crouch argues that the expansion of credit to low income households and to wealthy asset-holders saved privatised Keynesianism "from the instability that would otherwise have been its fate" (Crouch, 2011a: 114). However, as was argued in Chapter Two, this provides us with an incomplete explanation of how capitalist stability was in fact secured throughout this period. In particular, it explains the stabilisation of pre-crisis British capitalism in terms of a narrow range of *economic* mechanisms whilst neglecting the ways in which this dynamic was itself embedded within a broader institutional framework. The original RA therefore opens-up the question, of the relation between the dominant growth model, on the one hand, and the 'extra-economic' institutional forms within which it is embedded on the other.

However, despite its potential to overcome the limitations of the growth model perspective, the original RA is not without its own weaknesses. Four critiques have been advanced in particular. First, many scholars have argued that the RA deploys a *functionalist* conception of the relation between the economy and the MSR (Clarke, 1988; Hirst and Zeitlin, 1991: 21; Lacher, 2013). Specifically, critics argue that the RA rests on the assumption that capital has distinctive reproduction requirements, expressed for example in its need to secure a steady supply of labour or to expand the scope of the market. Critics argue that regulationists then introduce the MSR as an institutional framework which simply 'emerges' in a functionalist manner to ensure that these preconditions are secured (Joseph, 2013: 113; Moulaert, 1996). This, critics suggest, leaves little room for agency and implicitly assumes (contrary to the original intent of the regulationist research programme) that 'self-correction' mechanisms are built into the framework of capitalism itself (Lacher, 2013). A second common critique is that the MSR concept is so broad that it is of limited analytical utility (Kenny, 1999: 47; Hirst & Zeitlin, 1991: 21; Painter & Goodwin, 1995). For example, Painter and Goodwin argue that the RA tends to posit the MSR as an overarching and unified system at the 'macro' scale. In contrast, they argue that regulation should be viewed as a process involving multiple social practices at the local or 'micro' scales of analysis (Painter & Goodwin, 1995: 335). This has the methodological implication that regulationist research should investigate how regulatory practices operate 'on the ground' through concrete case study research rather than through analysis of macro-political 'regimes' or 'modes' of regulation (ibid: 342). Third, some critics argue that the RA has an unconvincing account of institutional evolution and change (Hay, 2002b). On this understanding, regulationists posit an overly simplistic model of historical change whereby periods of stability under a given RoA are followed by (temporary) moments of rupture which are in turn followed by the emergence of a new RoA (Jessop, 2001). However, critics argue that this formulation misses the ways in which path dependencies from earlier phases of capitalist development endure over time or 'across' different RoA and how profound - if incremental - institutional change can occur within seemingly stable regulatory regimes (see also: Streeck & Thelen, 2005). A fourth line of critique is that although the Parisian RA does identify the state as a key institution in securing capitalist stability, the approach in fact employs a highly limited theory of the state and an unconvincing conception of *politics* in shaping different regulatory regimes (Bertramsen et al., 1991). On this understanding, state intervention within the original RA tends to be explained in functionalist terms, with little account given of the various societal pressures and strategic considerations which can influence governmental intervention in the economy. These critiques of the RA are by no means exhaustive. However, they do capture some of the main criticisms which have been levelled against the original regulationist paradigm. Rather than responding to each in turn, the following section will engage with two bodies of literature which built-upon these criticisms and then advanced a *reformulated* framework for regulationist research. These two approaches are 'British Regulation Theory' (BRT) and the 'Variegated Neoliberalisation Approach' (VNA) respectively. The latter, in particular, will inform the empirical sections later in the thesis.

3.3 From British Regulation Theory to the Neoliberalisation Approach

British Regulation Theory (BRT) emerged primarily out of a dialogue between economic geographers and neo-Marxist state theorists studying processes of social, economic and spatial restructuring in the immediate aftermath of Thatcherism (Hay & Jessop, 1995: 305).[32] BRT levelled a series of critiques against the original RA and in so doing advanced a reformulated paradigm for regulationist research. Its first critique of the original RA was that it deployed an inadequate conceptualisation of the *geography* of regulation processes.[33] BRT argued that the original regulationist paradigm implicitly deployed a methodologically nationalist framework insofar as it tended to focus on the relationship between accumulation and 'institutional embeddedness' at the national scale. Early regulationist accounts had explained the relative durability of Fordism by focussing on a series of macroeconomic relations, expressed for example in the link between rising real wages and levels of aggregate demand. At the same time, insofar as the approach focussed on 'institutional fixes' – such as the way in which collective bargaining systems contributed to stable aggregate demand formation – it tended to focus on regulatory norms embedded at the national scale. Two prominent BRT scholars, Peck and Tickell, argued that this analytical focus on the 'macro-institutional' dimensions of capitalist development meant that the original RA

[32] In particular, the approach was associated with scholars such as Peck (Peck, 1996, 2001a, 2010), Adam Tickell (Peck & Tickell, 1992, 2002; Tickell & Peck, 1995), Martin Jones (Jones, 1997, 2002), Gordon MacLeod (MacLeod, 1997, 2001), Bob Jessop (Jessop & Sum, 2006; Jessop, 2001, 2007c), Rene Bertramsen (Bertramsen et al., 1991) and Colin Hay (Hay, 1992, 1995, 1996b) amongst others.

[33] This critique was first advanced by Peck and Tickell in a series of important articles (Peck & Tickell, 1992, 1994; Tickell & Peck, 1995).

contained "no explicit conception of uneven spatial development, at either the subnational or supranational scales" (Tickell & Peck, 1995: 373). As a result, patterns of regional underdevelopment and sub-national institutional complexes were unduly ignored by the original RA.

In order to overcome this shortcoming, BRT argued that the RA needed to explicitly engage with the question of *uneven development* as a constitutive feature of advanced capitalism. As Peck and Tickell wrote in an early article, "regimes of accumulation … carry with them a particular form of *subnational* uneven development, while being embedded within a particular structure of *international* uneven development" (Peck & Tickell, 1995: 375). One core contribution of the British RA was therefore to develop a conceptual framework which could account for the uneven geography of capitalist accumulation and regulation over time (Hay & Jessop, 1995: 305).

Peck and Tickell first advanced their reformulated version of the RA in an analysis of economic restructuring in Britain in the late 1980s and early 1990s (Peck & Tickell, 1992; Tickell & Peck, 1995). Their core argument was that Thatcherite economic policy had produced markedly uneven spatial effects across Britain's regions. On the one hand, Thatcherism consolidated the position of London and the South East, in large part because these regions enjoyed a pre-existing comparative advantage in financial and business services and were relatively 'open' to international capital flows (Jessop et al., 1988: 97; Peck & Tickell, 1992: 357). On the other hand, Thatcherite economic policy had a strongly negative impact on the UK's ex-industrial regions insofar as these areas were far more reliant upon export competitiveness in the tradeable goods sectors (Peck & Tickell, 1992: 357). The result was that the 'national' accumulation system (or 'growth model') which came to be consolidated throughout this period entrenched longstanding inequalities between the UK's regions. Rather than bringing about a 'stable' RoA, then, the Conservative's accumulation strategy actively exacerbated social, economic and spatial polarisation within Britain (Jessop et al., 1988).

Second, BRT placed a strong emphasis on how uneven geographical development *itself* tends to become an object of regulation within advanced capitalist states. For example, Thatcher's economic policies produced a huge surge in unemployment in the de-industrialising regions of the North (Martin, 2004: 17). However, market mechanisms were in fact extremely limited in their capacity to regenerate laggard regions on their own (Peck & Tickell, 1992: 358). As such, rather than securing a 'reduction' in the size of state, Thatcherism precipitated a qualitative *reorganisation* of the state apparatus as it sought to resolve the difficulties associated with earlier rounds of market liberal restructuring (Peck, 2003: 71). This was reflected in the emergence of programmes geared towards mobilising workers in depressed regions, including early formulations of 'workfare' programmes and Training and Enterprise Councils (TECS) amongst other policies in the late 1980s (Jones, 2002; Peck, 2001b).

Third, the British RA critiqued the original RA on the grounds that the latter had an inadequate conceptualisation of *institutional change*. In contrast to advocates of the 'post-Fordism' thesis (Gertler, 1988; Stroper, 1989), BRT argued that a new, stable RoA was not in evidence in the aftermath of Thatcherism (Hay, 1995: 389; Jessop, 2007: 514; MacLeod, 2001: 1153; Painter & Goodwin, 1995: 337; Peck & Tickell, 1994; Peck, 2003: 64).[34] Rather, BRT characterised this period as an example of '*after*-Fordism'; one where no stable 'institutional fix' had emerged at either the international, national

[34] BRT argued that advocates of cruder versions of the 'Post-Fordism' thesis had focussed on very specific case studies of change in specific industrial districts - for example Baden-Wurttemberg or the 'Third Italy' - and then *generalised* from these specific examples, claiming that they embodied a new RoA (see also: Moulaert, 1996: 161).

or sub-national scales (Peck & Tickell, 1994).[35][36] As a result, the 'after-Fordist' period was marked by a distinctive *lack* of coordinating mechanisms which could effectively stabilise capitalist expansion. Consequently, the 'after-Fordist' period was governed by a kind of 'Jungle Law', where the anarchic and de-stabilising movements of the market were left unchecked, producing a permanent threat of institutional breakdown, economic uncertainty and ultimately crisis (Peck & Tickell, 1994: 264).

BRT was advanced specifically to overcome some of the main weaknesses of the original regulationist paradigm. For example, whilst the original RA had been criticised for its functionalist tendencies and for neglecting the agency of social actors, BRT placed a central methodological emphasis on the ways in which local actors 'on the ground' sought to respond to regional underdevelopment (Goodwin et al., 2012). Whilst the original RA had relied upon a very broad - and arguably imprecise - conception of the MSR, BRT actively turned to the ways in which the regulation of accumulation was secured in distinct, local contexts through case study research (Painter & Goodwin, 1995). Similarly, whilst the original RA posited an unconvincing conception of the transition between different phases of capitalist development, BRT was far more sensitive to the ways in which institutions from previous regulatory modes could endure and shape the emergence of accumulation regimes at a variety of different spatial scales. BRT therefore overcame some of the weaknesses of the original RA, whilst remaining attentive to the ways in which economic action is always embedded within and regularised by complementary institutional contexts. However, as will be argued in the following sections, BRT overcame these problems at a

[35] For example, the transnationalisation of finance and the abolition of capital controls had undermined the capacity of nation states to regulate capital flows. In turn this rendered national economies more susceptible to instability and crisis (Brenner et al., 2008: 20). Rapid marketisation had also produced social polarisation and new social instabilities. The speed of the business cycle had increased markedly, for example through increased labour market flexibility and through the lowering of barriers to international trade (Peck & Tickell, 1995: 367).

[36] As had occurred, for example, under the postwar regime of 'embedded liberalism' (Ruggie, 2009).

considerable cost. In particular, it largely abandoned the national scale of analysis, gave up on explicitly engaging with distributional questions and even abdicated the core regulationist problematique – the question of how phases of capitalist stability can be secured within different historical conjunctures.

BRT's significance here is that whilst it overcame some of the weaknesses of the original RA, it also laid the basis for a distinctive approach - defined here as the 'Variegated Neoliberalisation Approach' (VNA) – which became a key point of reference within the critical political economy literature before and after the 2008 GFC.[37] The VNA was advanced by Peck along with a number of other scholars who had pioneered the earlier school of BRT (Brenner, Peck, & Theodore, 2010; Peck & Theodore, 2007; Peck et al., 2009, 2013). The core objective of the VNA is to advance a conceptual framework which overcomes the weaknesses of existing treatments of neoliberalism. The VNA positions itself against three other approaches within the heterodox IPE literature: the 'Varieties of Capitalism' approach, neo-Gramscian IPE and post-structuralist approaches (Brenner et al., 2010b).[38] For the VNA, the problem with these

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[37] The VNA has informed contemporary debates relating to the nature of European integration (Jessop, 2012; Macartney, 2009, 2010), 'models of capitalism' (Bruff & Horn, 2012; Ebenau et al., 2015), the 'policy transfer' literature (McCann & Ward, 2011; Peck & Theodore, 2015; Peck, 2011) and work on the politics of austerity in the post-crisis conjuncture (Aalbers, 2013; Peck et al., 2013).

[38] The central VoC argument is that globalisation will not lead to the convergence of all economies on one (neoliberal) model of capitalism but rather that institutional differences between 'liberal market economies' (LMEs) and 'coordinated market economies' (CMEs) will endure over time (Hall & Soskice, 2001). Whilst Peck and his collaborators acknowledge the value of the institutionalist focus of the VoC framework (Peck & Theodore, 2007: 761), they reject the approach on the grounds that it employs a methodologically nationalist framework and that it fails to account for common trajectories of institutional change across distinct models of capitalism (Peck & Theodore, 2007). Second, the VNA positions itself against what it terms the 'Historical Materialist IPE' (HM IPE) literature. HM IPE argues that neoliberalism is organised by social forces operating through institutions at the *transnational* scale who seek to embed principles of international order which favour the interests of dominant social groups (Cox, 1981; Gill & Cutler, 2014; Gill, 2002). For example, Stephen Gill's work identifies a shift to a 'new constitutionalism' whereby the property rights of capital are increasingly insulated from democratic demands through the establishment of quasi-legal norms and governing mechanisms removed from the sphere of domestic politics. However, while this conceptualisation captures the increasingly global nature of neoliberal capitalism, the VNA rejects the approach on the grounds that it falsely conceives of neoliberalisation as a process which is simply 'imposed' on national social formations 'from above' without taking into account the ways in which national and local institutional configurations often mediate and

approaches is that each tends to privilege one scale of analysis, whether this be the transnational scale (as is the case with HM IPE approaches), the national (VoC framework), or the local (governmentality approaches). This means that each tends to wrongly conceive of neoliberalism either as a totalising logic which is imposed 'from above' or as a series of diffuse and localised social practices which take place independently of broader structural factors (Brenner et al., 2010b: 184). The VNA's core argument is that each of these approaches therefore misses the 'variegated' or *systematically uneven* nature of neoliberal development (Brenner et al., 2010b). As with BRT, the VNA therefore views *uneven development* as a systemic and constitutive feature of neoliberalisation in that it aims to capture how localised and context-specific experiments in market liberal rule are shaped by a broader structural logic without themselves being reducible to that logic. The VNA develops this approach through the deployment of a series of concepts relating to the nature of the state under conditions of neoliberal restructuring. Each of these concepts will be deployed to conceptualise the evolution of British capitalism under both New Labour and the Coalition in subsequent chapters.

1. *Neoliberalisation as a 'hybrid' form*

The first proposition of the VNA is that neoliberalism always exists in a *hybrid form* (Jessop, 2002; Peck, 2010: 6; see also: Schmidt & Thatcher, 2013: 24). The idealised end-point of the neoliberal imagination is a situation in which 'the market' becomes consolidated as the dominant mechanism of resource allocation in society (Mirowski, 2013; Peck, 2010: 16). However, projects of this form are likely to

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shape market liberal projects on the ground (Brenner et al., 2010b: 192). Third, the VNA rejects 'post-structuralist' or 'governmentality' approaches to neoliberalism. These approaches reject the notion that neoliberalism develops according to an over-riding structural logic and instead views neoliberalism as involving a "dispersed constellation of distinct, localized regulatory experiments" (ibid: 204). However, the VNA rejects this approach on the grounds that whilst it can yield detailed *descriptions* of neoliberal practices on the ground, it struggles to explain the 'context of context', or the broader conditions which make the dominance of market liberal projects possible (see also: Joseph, 2010).

encounter a range of social and political barriers within advanced capitalist states. Workers, for example, are likely to resist attempts on the part of capital and the state to treat their labour power simply as a 'commodity' whose price fluctuates in line with changes in market sentiment (Hyman, 2005: 11). Similarly, informal coalitions of social groups (for example pensioners with a high propensity to vote in elections) are likely to receive an array of state-facilitated transfer payments which cannot be reduced to the logic of 'market allocation'. The result is that neoliberalism, "typically coexists with elements from other discourses, strategies, and organizational patterns", which place definite limits on the legitimate scope of the price mechanism (Jessop, 2002a: 453). A key issue for the VNA is therefore to examine the ways in which neoliberal programmes conflict with and/or incorporate elements of the 'extra-economic' institutional contexts within which these programmes are embedded.

As such, each phase of neoliberalisation will display novel, *sui generis* characteristics as state managers seek to negotiate complex institutional terrains which have been shaped by previous programmes of social and economic restructuring. This has important methodological implications. It means that researchers examining processes of market liberal restructuring cannot 'read-off' processes of institutional change from an overriding structural logic, for example the 'logic of capital accumulation' or 'globalisation'. Rather, a *conjunctural* mode of analysis is necessary which acknowledges the ways in which novel institutional configurations and political contexts can strongly shape emergent models of social and economic development (Jessop, 2002b; Peck, 2010). In turn, this has the implication that researchers deploying the VNA need to be attentive to the ways in which societies which incubate neoliberalising tendencies also typically sustain a range of *counter-tendencies* which can effectively limit - but which can also ultimately stabilise - the broader developmental trajectory of a given growth model.

This has important implications for the argument of this thesis. In particular, it allows us to go move beyond the tendency of the growth model perspective to explain the stability of finance-led growth in terms of those mechanisms which were *internal* to that dominant growth model. Instead, the VNA invites us to explicitly identify those counter-tendencies and 'flanking mechanisms' which help to stabilise a given mode of economic development but which are not themselves reducible to the 'reproduction requirements' of the dominant growth model. As shall be argued in the following chapters, this has important implications for how we conceptualise Britain's model of capitalism under New Labour and the Coalition respectively. For example, in contrast to dominant interpretations of New Labour which seek to characterise the Party's programme as either 'social democratic' or 'neoliberal', Chapter Four argues that New Labour established a distinctive *hybrid* regime of development which consolidated the UK's finance-led growth model whilst simultaneously expanding the scope of the state in variety of different ways.

2. *The State and 'Roll Back' neoliberalisation*

This conception of neoliberalism's essential 'hybridity' has important implications for the theory of the state deployed by the VNA. Peck distinguishes analytically between two modes of neoliberal state intervention. First, he identifies what he terms 'roll back' neoliberalisation (Peck, 2010: 22). This involves a situation where state managers identify specific social or political barriers to the expansion of 'self-regulating' markets and then subsequently attempt to retrench or restructure these impediments along market liberal lines. Characteristically, this involves the identification of specific organisations and social forces – typically trade unions, recipients of particular kinds of state welfare, planning agencies, or government bureaucracies – which are perceived to impede the effective functioning of the price mechanism. In the 'roll back' phase of the neoliberalisation process, these forces are tackled head-on. The tactics and tools available to state managers in the name of such programmes will of course vary according to the particular context within which they find themselves (Burnham, 1999). For example, in the early 1980s in Britain, rapid interest rate hikes were used as an indirect means of flushing-out uncompetitive industries and re-establishing managerial control over the workplace (Bulpitt, 1986: 37). In other contexts, more direct methods were used, for example with the strategic deployment of the police in order to break pickets in the 1984-5 miners' strike. In each case, however, it is important to note that the 'size' of the state need not be quantitatively diminished as a result of 'roll back' neoliberalisation.[39] Rather, 'roll back' neoliberalisation involves the strategic *redeployment* of state power in order to tackle those social groups and institutional forms which are perceived to represent barriers to further market liberal expansion (Bonefeld, 2010; Gamble, 1988).

Throughout the empirical chapters of the thesis, this conception of 'roll back' neoliberalisation will be used at various points in order to explain processes of social and political change in the post-crisis conjuncture. For example, Osborne's attempt to reduce the size of the budget deficit through large public expenditure cuts - as outlined in Chapter Five - could be conceptualised as a programme of 'roll back' neoliberalisation. However, as is demonstrated in the chapter, this programme encountered a range of social and political barriers which in turn shaped the evolution of the Coalition's economic strategy in office. Similarly, Chapter Seven traces how the Coalition's attempted to 'roll back' public sector employment had spatially uneven effects across the UK regions. In each case, the VNA allows us to capture the ways in which programmes of 'roll back' neoliberalisation typically encounter historically-specific institutional legacies and political barriers which can in turn re-shape the trajectory of advanced capitalist development.

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[39] For example, despite a discursive commitment to 'rolling back the state', under the Thatcher governments the overall tax burden increased from 33% in the late 1970s to 39% in 1987 (Keegan, 2003: 281).

The State and 'Roll Out' neoliberalisation

The second form of neoliberal state intervention identified by Peck is referred to as *'roll out' neoliberalisation* (Peck 2010). This characteristically develops in response to the initial shock therapy of 'roll back' neoliberalisation insofar as this tends to create – quite predictably – an array of social problems and governing difficulties for policymakers. Two distinct forms of 'roll out' neoliberalisation can be identified in particular. The first form involves the emergence of extra-economic 'flanking mechanisms' which have the capacity to stabilise market restructuring processes within particular periods of time (Graefe, 2006; Jessop, 2002b). For example, the large interest rate hikes of the early 1980s produced a rapid surge in unemployment throughout Britain. However, this forced up the cost of the welfare bill as legions of workers were forced onto the unemployment register. Whilst this helped to mitigate some of the social problems which might have otherwise emerged from the initial phase of 'roll back' neoliberalisation, expanded spending on unemployment benefit also acted as a permanent brake on attempts to reduce the size of public spending as a proportion of GDP throughout the 1980s (Chote, et al., 2010: 3; Smith, 2014: 606). The attempt to re-establish market discipline through tight monetary policy therefore generated a *roll out* of government spending in areas which suddenly experienced high levels of unemployment and deindustrialisation.

The second form of 'roll out' neoliberalisation involves attempts on the part of policymakers to reconfigure the state apparatus in ways which are 'functional' to the perceived requirements of a globalising, open economy (Jessop, 2007a: 287). In particular, this tends to involve attempts "to promote innovation, competition and structural competitiveness…by intervening on the supply-side, promoting a flexible and highly skilled labour force through training and reskilling policies that subordinate welfare to the perceived requirements of economic policy" (Hay, 1996b: 171). Again, this form of 'roll out' neoliberalisation can be viewed partly as a response to the dysfunctions and failures associated with previous rounds of neoliberal restructuring. For example, whilst the first wave of Thatcherite reform boosted certain geographically concentrated sectors of the British economy, it also consolidated the low skill, low productivity nature of the British labour market across large swathes of the country (Coates, 2005: 184). In particular, this was reflected in the decline in the tradeable goods sector and in the low levels of investment in skills and infrastructure which occurred throughout the 1980s and 1990s. Crucially, the absence of an activist state which would intervene effectively on the 'supply-side' increasingly came to be perceived as a key barrier to the development of a 'knowledge-based economy' which could compete in a globalising world economy (Thompson, 1996). As such, throughout New Labour's second and third terms, we can identify a *rolling out* of state programmes which aimed to remedy the failures of Thatcherite economic policy. This was to be achieved through the implementation of new skills, training and workfare policies designed to boost the competiveness of the British workforce and economy in general (Hindmoor, 2004: 106). Again, on this understanding 'roll out' neoliberalisation does not involve a reduction in the size of the state. Rather, it involves the qualitative reorganisation of the state apparatus and the development of new modes of intervention in the economy in ways which (are perceived to) facilitate expanded economic growth and competiveness. As Peck writes, "a neoliberal state is not necessarily a less interventionist state; rather it organises and rationalises its interventions in different ways" (Peck, 2001b: 447).

This conception of 'roll out' neoliberalisation will also be drawn-upon throughout the empirical chapters of this thesis. For example, Chapter Four argues that the expansion of public expenditure in New Labour's second and third terms - whilst driven by internal party political and electoral calculations - effectively served to stabilise and 'flank' Britain's finance-led growth model. In particular, it ensured that regions which might otherwise have been excluded from the growth dividend associated with privatised Keynesian growth were at least partially compensated through enhanced levels of public sector employment and increased levels of public expenditure. Similarly, Chapter Seven argues that the Coalition's programme of public sector employment entrenchment was flanked by an attempt to 'roll out' private sector job creation across the ex-industrial regions. However, the chapter argues that this programme unfolded in a highly uneven manner, meaning that entrenched patterns of spatial divergence endured within Britain throughout the post-crisis conjuncture.

3. *Neoliberalisation as an evolutionary and contradictory developmental programme*

The VNA also provides us with a useful framework through which to understand continuity and change in advanced capitalist societies. In one sense, the framework can be used to facilitate 'synchronic' analysis. This is where analysts take a 'snapshot' of social and political processes at a particular moment in time in order to examine the relation between different elements of a social system (Hay, 2002b: 114; Ruccio, 1989: 36). The VNA facilitates analysis of this kind insofar as it allows us to distinguish analytically between different forms of state intervention which may be in evidence within a society in a given period of time but which are seemingly oriented towards securing contradictory social objectives. For example, a government may weaken labour protections whilst at the same time advancing redistributive policies which subsidise low pay employment. The 'roll back' and 'roll out' concepts advanced by the VNA allow us to make sense of these seemingly incongruous forms of state intervention and helps us to think through some of the tensions and contradictions which may be associated with such strategies. In another sense, however, the VNA allows us to engage in longer-term *diachronic* analysis. This is where analysts trace processes of social and economic change over a longer period of time (Hay, 2002b: 148).

The VNA therefore contributes to an understanding of the *developmental trajectory* of advanced capitalism in a number of ways. First, it emphasises that a 'pure' form of neoliberalism has not been - and cannot be - consolidated as a self-regulating and self-stabilising social and economic system. The 'end-point' of the neoliberal imagination - the 'pristine clarity' of the free market (Peck, 2010: 7) - is an impossible destination to reach since markets are always dependent on 'extra-economic' inputs which are not reducible to the 'economic' sphere (Streeck, 2012a). The implication of this is that neoliberalisation processes are characterised as 'rolling programmes' of (pro) market regulatory restructuring' (Peck et al., 2012: 267). The very impossibility of extending the price mechanism into all social spheres means that neoliberal development is driven to engage in a "permanent revolution", where its self-expansion is frustrated by socio-political barriers which then must be circumvented by further rounds of market liberal regulatory reform (Peck, 2010: 7). Second, the VNA draws attention to the ways in which 'roll out' state interventions under neoliberalism often form the terrain for future rounds of market liberal restructuring and retrenchment. For example, a government may choose to implement subsidies for low paid workers in order to mitigate the effects of 'flexible' labour markets and rising levels of income inequality. However, the growing reliance of the workforce on such subsidies can become a target for future retrenchment (particularly in a context of public expenditure reduction). As such, the 'flanking mechanisms' which stabilise neoliberalism in one phase of its development may come to be identified as barriers to market liberal expansion in a subsequent timeframe.

This conception of neoliberalisation as an evolutionary, contradictory and conflict-ridden process will inform the subsequent analysis of the political economy of New Labour and the Coalition respectively. For example, Chapter Four argues that New Labour's political economy embodied a 'hybrid' regime of social and economic development. This is because it rested on the combination of two analytically distinguishable modes of state intervention in the economy. On the one hand, the New Labour government attempted to entrench and expand a distinctive finance-led growth model by increasingly subordinating economic policy to the perceived preferences of the financial markets (Ertürk et al., 2011; Shaw, 2012). At the same time, the Blair and Brown governments substantially increased spending on public services and boosted state-led job creation, 'rolling out' a series of flanking mechanisms which (partially) compensated those social groups which might otherwise have been excluded from the dominant finance-led growth model. The three chapters which follow then examine how New Labour's 'hybrid' regime of development was reconstituted throughout the post-crisis conjuncture under the Coalition. For example, Chapter Five examines the ways in which the Coalition government sought to 'rebalance' the British economy through a programme of 'expansionary austerity'. This strategy aimed to rapidly reduce public spending in order to encourage increased levels of business investment and private sector activity. However, as we shall see this form of 'roll back' neoliberalisation - the attempt to extend the scope of the market through sustained public sector retrenchment - very quickly encountered a range of social, economic and political obstacles which frustrated and subsequently re-shaped the development of the Coalition's economic strategy.[40]

3.4 Limitations of the 'Neoliberalisation' Approach

Whilst the VNA will be drawn-upon throughout the following chapters, the approach is also limited by a number of weaknesses which stand in need of rectification. In particular, the VNA fails to adequately account for what we could term the *'macro-institutional'* scale of capitalist development. Whilst advocates of the VNA profess to take the relation between the transnational, national and sub-national scales

[40] Chapter Seven traces the way in which the Coalition's programme of public sector employment retrenchment involved an attempt to 'roll back' a range of regional 'flanking mechanisms' which had developed under New Labour.

seriously (Brenner et al., 2010b), the approach has thus far been utilised overwhelmingly in research which focuses on economic governance at the urban or 'local' scales.[41] The predominance of 'the local' in VNA research can partly be explained as a function of its prominence in debates within economic geography and its roots in BRT (Brenner, 2013; Lees, 2012; Oosterlynck & González, 2013). However, it is also the outcome of more explicitly theoretical commitments, not least the VNA's concern to avoid falling into the trap of 'methodological nationalism' and its preference to "deconstruct, disaggregate, or even dismiss national 'models' as overgeneralized archetypes" (Peck & Theodore, 2007: 769). This conceptual orientation of course has its roots in BRT's critique of the original RA. Thus, whilst the VNA's analytical focus on actors and institutional complexes at the local scale might overcome some of the 'functionalist' tendencies which are sometimes associated with earlier regulationist research (Peck, 2003: 67), there is a danger that the VNA's privileging of sub-national regulatory processes blinds the approach to the key role that macro-institutional sites continue to play in conditioning and shaping advanced capitalist development. Interestingly, Peck and his collaborators have acknowledged this shortcoming themselves (Peck & Theodore, 2007: 767). They argue that if the VNA is to be developed further, it must make a:

> Concerted engagement with 'macroeconomic geographies'... [and should do] more work of a 'holistic' nature, concerned with macroeconomic patterns and trajectories, longue-durée processes, the restructuring of institutional ensembles... including those at the level of the nation-state...and with those 'big geographies' of capitalist restructuring

(Peck & Theodore, 2007: 762)

41 For example, Peck and his collaborators have applied the VNA to understand the restructuring of urban space in the post-crisis conjuncture in the United States (Peck, Theodore, & Brenner, 2013b).

Clearly, there are multiple ways in which the VNA might be integrated with an analysis of the 'macro-scale' of capitalist development.[42] That said, in relation to the British case we can identify three key blindspots in the VNA in its current form. These include its lack of a focus on *central state institutions,* its inability to adequately conceive of *distribution* and its failure to examine how phases of relative *stability* are secured over periods of time. Let us take each in turn.

First, the VNA has not adequately engaged with those institutional complexes and actors at the core of the capitalist state which can exercise a degree of control over the direction of fiscal, monetary and macroeconomic policy. For example, national treasuries, finance ministries, central banks and state executives all play a crucial role in shaping economic development within advanced capitalist societies (Cox, 1981: 114; Roberts, 2011: 49). The enduring – and arguably increasing - significance of 'central state' institutions in regulating economic development becomes immediately evident if we consider the ways in which a (partial) economic recovery has been secured throughout the post-crisis conjuncture. In the immediate aftermath of the GFC, a broad swathe of national governments implemented large scale re-capitalisations of their banking sectors.[43] For example, it was calculated that the British government pumped £850 billion into rescuing large financial institutions (Hay, 2013b: 6). Similarly,

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[42] For example, an examination of economic policy in Eurozone member states would have to engage with the various competences of EU-level institutions and actors, including the European Central Bank (ECB) and the regulations and directives which attempt to embed fiscal rules across the Eurozone economies (Clark, 2015; Verdun, 2015). Similarly, analyses of developing economies would have to engage with alternative institutions and actors at the 'macro-institutional' scale, for example the intersection of ministries of finance and international donor organisations and development agencies. Just as the relation between capitalist development and the 'macro-institutional' scale varies across different regional spaces, the relations between different scales of development also changes over time. For example, since the early 1980s there has been an increased 'hollowing-out' of the state's capacities, as economic development and governance functions are increasingly delegated "upwards, outwards and downwards" to various para-state agencies (Jessop, 2002b; Shaw & MacKinnon, 2010). In short, the relation between different scales of development is always a 'moving target' which varies across different historical periods and in different geo-political contexts.

[43] Interestingly, this is true of the Eurozone economies as well (Verdun, 2015: 221). In 2009, bank deposits were initially secured by member state governments. It was only after the crisis worsened that in May 2010 a European Financial Stability Mechanism emerged which coordinated bail-outs from the EU level (ibid: 225).

between 2009 and 2015, advanced capitalist states embarked upon an unprecedented period of 'loose monetary policy'. Interest rates were slashed, with the Bank of England cutting the base rate to 0.5 per cent and holding it there for an unprecedented period of time. In addition, novel forms of monetary policy emerged in this period – in particular 'Quantitative Easing' (QE) – through which central banks engaged in huge asset purchase programmes designed to boost corporate balance sheets in order to encourage investment in the real economy (Joyce et al., 2011). In combination, these policies have strongly conditioned the shape of the economic recoveries across the West and indeed across the global political economy in general (Schwartz, 2015). However, each of these 'fixes' has emanated from within and has been organised by *central state institutions.* The problem is that the VNA - with its emphasis on localised regulatory practices and its methodological preference for case studies of neoliberalisation 'on the ground' – is limited in its capacity to engage with these privileged sites of capitalist regulation. Although Peck has acknowledged (somewhat enigmatically) that post-crisis urban restructuring has been shaped by "macro-structural and macro-regulatory forces", no serious engagement with these privileged sites of capitalist regulation is offered in the VNA literature.

Second, the VNA lacks an account of the ways in which neoliberalisation processes have been strongly associated with distinctive *distributional* dynamics which profoundly shape the developmental trajectories of advanced capitalist societies (Bengtsson & Ryner, 2014). Although earlier regulationist work had utilised the conception of an 'accumulation system' - defined as a "macro-economically coherent production-consumption-distribution relationship" (Peck & Tickell, 1994: 286) - the VNA fails to engage directly with the distinctive distributional dynamics which are associated with different growth models under conditions of neoliberalism. To take one example, across Europe, the 'wage share' - the proportion of overall output which goes to workers - fell from 72.5 per cent in the early 1980s to 63.3 per cent in 2007

(Stockhammer, 2011: 10). This changing distributional context has profoundly shaped the conditions within which more 'localised' neoliberal programmes and experiments are embedded. For example, declining 'wage shares' and growing levels of income inequality have been identified as a core driver of financialisation within advanced capitalist economies (Stockhammer, 2010).[44] The issue of the 'wage share' is only one example of a broad distributional trend which has been closely associated with neoliberalisation over the past three decades. However, this distributional shift has important implications for the kind of economic development strategies which might emerge at the sub-national scale. For example, the growth of financialisation and enhanced access to mortgage credit were crucial preconditions of the growth of the 'buy-to-let' market in the UK, a dynamic which itself produced highly uneven geographies (Leyshon & French, 2009).

However, economic geographers in general and VNA scholars in particular have failed to integrate analysis of these localised trajectories with the broader distributional context within which these dynamics are necessarily embedded. Again, this can be seen as a product of BRT's re-orientation away from the original regulationist paradigm. In seeking to advance a less 'totalising' conception of the MSR and RoA, VNA scholars effectively abandoned the question of distribution, at least insofar as this can be identified as a coherent dynamic at the macro-institutional scale. Peck and his collaborators have themselves acknowledged this shortcoming in the VNA, stating that economic geographers have, "ceded some of the questions of macroeconomic geography to other fields" (Peck & Theodore, 2007: 767). Again,

[44] Two drivers of this dynamic are identifiable. First, a falling wage share means that the purchasing power of households lower down the income scale will tend to decline relative to overall levels of economic output. There is therefore an in-built incentive for lower income households to enhance their spending power through increasing their exposure to household debt and consumer credit if they are to maintain their living standards (Montgomerie, 2007b). Relatedly, insofar as the proceeds of economic growth are increasingly concentrated at the upper-end of the income distribution, this can lead to a glut of savings within richer households and corporations. In turn, this is associated with lower levels of investment in productive activities and an increased likelihood of destabilising bouts of rent-seeking behaviour (Lansley, 2011).

political economy approaches can play a crucial role in integrating the VNA with a more explicit account of the distributional dynamics associated with neoliberalisation processes (Hadjimichalis & Hudson, 2014: 215).

Third, whilst VNA scholars have developed compelling case study research into institutional restructuring processes within advanced capitalist states, they have struggled to explain how relatively stable phases of capitalist development can be secured over sustained periods of time. There is a certain irony here. As we saw earlier, the original RA aimed to explain how in spite of the many contradictions and tensions associated with the accumulation process, advanced capitalist societies still nonetheless manage to secure the conditions for their own reproduction and expansion. The original RA argued that such stable phases of capitalist development were possible only when a particular accumulation system became 'coupled' with complementary institutional complexes which had the capacity to 'guide' and stabilise economic expansion. In the case of the VNA, whilst the question of what 'institutional fixes' might sustain accumulation over time remains at the heart of the research agenda, there are two major differences from the original regulationist paradigm. First, the VNA embodies a "re-spatialized" regulation approach which means that possible 'institutional fixes' emanating from the national-level policy are downplayed if not ignored altogether (MacLeod, 2001: 1159). However, this is a problematic position. For example, within Britain central state institutions retain the capacity to tax, spend and to influence levels of economic activity. As will be argued in following chapters, the capacity to expand public spending and increase state-led employment formed a crucial component of stabilisation under New Labour's political economy. However, the VNA has little purchase on these dynamics. Second, as we saw above, in line with BRT the VNA conceives of the contemporary period as one of 'after-Fordism', where no regulatory fix is in place at any scale of capitalist development. This means that neoliberalisation is conceived as a permanent regime of crisis management, driven to constantly respond to forms of social and economic breakdown which are of its own making. However, this means that there is a tendency for VNA research to interpret processes of spatio-institutional restructuring as both a cause and a consequence of immanent crisis tendencies, whilst systematically understating the ways in which relatively stable phases of capitalist development are in fact secured. For example, between 1992 and 2008, the British economy experienced a long phase of relatively stable and sustained economic development, with consistent – if relatively modest – economic growth, falling unemployment and rising levels of public investment all in evidence throughout this period. However, the VNA's focus on sub-national restructuring processes means that it struggles to grasp the ways in which capitalist stability and legitimacy might be constituted over time.

In short, whilst the VNA provides us with a useful conceptual framework for analysing processes of restructuring within advanced capitalist societies, the approach is also marked by a series of blindspots which stand in need of rectification. In particular, the VNA fails to properly acknowledge the enduring role that *central state institutions* play in regulating capitalist development; it fails to engage with the ways in which *distributional trends* shape the conditions within which more localised regulatory practices take place; and it lacks an adequate framework for explaining how *periods of relative stability* can be secured even within 'neoliberalising' states. In each case, these weaknesses are the result of the VNA's roots in BRT and its re-orientation away from the original regulationist research programme. This re-orientation, it is submitted here, seriously compromises the approach's capacity to explain continuity and change in advanced capitalist states. As such, the VNA would benefit from an engagement with political economy approaches which directly consider 'macro-institutional' aspects of capitalist development but which do not fall victim to the weaknesses of the original RA. In the following section, an alternative approach will be advanced which resolves some of these issues. In particular, it is argued that a renewed focus on the legitimation strategies or 'hegemonic projects' pursued by state managers can help us to overcome some of the difficulties associated with existing regulationist frameworks as well as the limitations of the growth model perspective in its current form.

3.5 Hegemonic Projects and Capitalist Stability

Two broad bodies of literature have been evaluated thus far in the thesis. It is worthwhile briefly reflecting on both critiques before proceeding to the final section of this chapter. First, in Chapter Two, it was argued that existing accounts of Britain's pre-crisis growth model tend to privilege analytically forms of state intervention which were 'functional' to the financialisation of the British economy. Proponents of the growth model perspective tend to emphasise either how the British government actively facilitated 'finance-led' growth through its macroeconomic policy or how it sought to encourage citizens to think and act in ways which were complimentary to the dominant 'finance-led' growth model (Crouch, 2009; Finlayson, 2009a). However, this means that such approaches tend to ignore the ways in which alternative patterns of state intervention can strongly condition social and economic development over time. Second, this chapter has critically engaged with three distinct sub-currents of the RA. This body of literature explicitly aims to account for the ways in which 'accumulation systems' (or 'growth models') are embedded within institutional contexts which can guide and stabilise economic development over time. Regulationist approaches therefore represent an advance on the growth model perspective insofar as they seek to explicitly theorise the role which 'extra-economic' institutional forms play in sustaining and stabilising capitalist development. However, whilst the VNA advances a series of useful concepts through which to understand social and economic restructuring in advanced capitalist societies, it fails to adequately account for the ways in which central state institutions can help to secure the conditions for relative economic and social stability over time.

In a sense, both of these critiques are *state theoretical* in nature (Hay, 1996b, 2014b; Jessop, 2013c). Whilst the 'growth model' literature isolates one dimension of state intervention (its tendency to create the conditions for 'financialisation'), the VNA disaggregates state agency too far (to the local/urban scale) and thereby loses sight of the ways in which privileged institutional sites within the state can secure the conditions for continued economic expansion and social stability. In light of these criticisms, an alternative approach is advanced in this section which builds upon the strengths of the 'growth model' perspective and the VNA whilst overcoming the limitations associated with each. This approach draws upon neo-Marxist state theory and places an emphasis on the legitimation strategies - or in Gramscian terms the 'hegemonic projects' - which are typically pursued by state actors across different historical conjunctures (Bertramsen et al., 1991; Gramsci, 1971; Joseph, 2002).

Hegemony and Hegemonic Projects

The concept of 'hegemony' has been applied in a variety of different ways in the literature (Bertramsen et al., 1991; Hall, 1979; Laclau & Mouffe, 2014; Morton, 2007; Overbeek, 1989). In contrast to other applications of the concept – and in particular the methodologically internationalist orientation of the 'Amsterdam School'[45] – this thesis deploys the concept of 'hegemony' in the way in which it was originally applied by Gramsci; as a concept which pertains primarily to the level of the *national* social formation (Jessop, 2006; Morton, 2007). This focus on national institutions and actors is justified because the national scale remains a crucial nodal

[45] Within the contemporary IPE literature it has been deployed primarily by scholars influenced by the 'Amsterdam School' (Jessop, 2001). This approach examines the ways in which transnational social forces seek to embed principles of world order which favour the interests of specific fractions of capital and dominant social groups (Apeldoorn, 2003; Cafruny & Ryner, 2003; Overbeek, 1989; Van der Pijl, 2005).

point through which economic and social processes continue to be mediated and organised (Clift & Woll, 2012; Morton, 2007: 115). National states retain a range of powers which are crucial to securing stability in advanced capitalist societies (Cerny, 1997). This includes their capacity to impose tax liabilities on citizens, to shape economic development through macroeconomic and social policy, to regulate employment relations through national systems of labour law and to secure social order through the use of the police and other repressive instruments (Howell, 2016: 576) . For this reason, so long as, "national communities, states and governments still provide the primary focus of political socialization, mobilisation, identification and representation, the nation state is here to stay" (Hay, 1999c: 171). As such, it is legitimate to consider the ways in which legitimation strategies or 'hegemonic projects' are articulated, organised and projected at the 'domestic' or national scale of analysis (Bulmer & Joseph, 2015).

The starting point for a theory of hegemony is the proposition that advanced capitalist societies are always riven by deep social divisions (Joseph, 2002; Dahrendorf, 1959). All such societies contain an institutionalised separation between those who have access to capital and those who rely on the sale of their labour power to reproduce themselves and their dependents. This capital-labour dichotomy is of course a crucial point of contestation, conflict and rupture in any capitalist social formation (Castree et al., 2003; Streeck, 2012: 13). However, it is not the only one. Rather, there exist different fractions of capital (financial, industrial, commercial), different groups of workers (reflected in the 'segmented' nature of labour markets) and a complex variety of social groupings within civil society oriented towards achieving a range of often irreconcilable social and political goals (Castree et al., 2003; Overbeek, 1989; Van der Pijl, 2005). Advanced capitalist societies therefore characteristically incubate a wide range of divergent 'particular' interests and multiple sites of possible social contestation. The result is that such societies contain a latent but nonetheless permanent tendency to generate social conflict, institutional breakdown and crisis. Theories of hegemony seek to explain how social breakdown and crisis is either displaced or avoided altogether through the expanded role of the state in modern politics (Morton, 2007: 4).

In classical accounts of hegemony, two distinct modalities of state power can be identified (Gramsci, 1971). The first is the state's capacity to deploy coercive power - the police, the courts and the prison system – in order to directly dominate subordinate social groups and to secure social order. In this way, supremacy can be secured through relations of force and direct domination (Williams, 1960: 590). However, in advanced capitalist states where civil society is well-developed - and where parliamentary democracy typically prevails – it is likely that this coercive dimension of state power will remain relatively latent and submerged. Under these conditions, a second form of state power typically comes to the fore. This is where leading social groups seek to secure *hegemony* by assuming 'moral and intellectual leadership' of their society (Femia, 1975: 30). This is done by constructing the 'particular' interests of privileged class fractions and social groups as embodying a 'general' interest which holds for society as a whole (Jessop, 1990: 208). In this way, subordinate social groups can be incorporated into 'national popular' programmes of action insofar as they come to actively identify with a conception of the 'national' or 'universal' interest which putatively transcends sectional interests. This second dimension of state power therefore involves "the exercise of leadership by the dominant group over subordinate groups in and through *the construction of consent*" (Joseph, 2000; Jessop, 2003: 183).

In societies which are riven by complex stratifications, large material inequalities and unequal power relations, hegemonic projects can play a crucial role in securing social cohesion and consent (Joseph, 2003). As Gamble has written, "hegemony exists when the political leadership of a group or nation is exercised with minimal dispute and resistance" (Gamble, 1988: 1). However, it is important to note the effective realisation of 'hegemony' is relatively rare. As Stuart Hall puts it, "no project achieves a position of permanent 'hegemony'. It is a process, not a state of being. No victories are final. Hegemony has constantly to be 'worked on', maintained, renewed and revised" (Hall, 2011; see also: Van Apeldoorn, 2003: 20). As this passage suggests, attempts to establish and consolidate a 'hegemonic' governing programme capable of commanding mass support requires constant management and intervention on the part of the state. Given the fractured and stratified nature of advanced capitalist societies, a 'universal' programme is in practice likely to always rest upon an "unstable equilibrium of compromise" between contending social forces (Poulantzas, 2014: 127). This means that leading governing programmes will always be vulnerable to future breakdown and will typically compete with other - albeit latent - hegemonic projects (Bertramsen et al., 1991: 114).[46]

A legitimation strategy or 'hegemonic project' can therefore be defined in broad terms as *a relatively coherent governing programme which seeks to secure broad-based support for a specific model of social, economic and political development within a particular society.* These programmes are generally oriented towards securing two related objectives. On the one hand, hegemonic projects seek to secure the consent of broad swathes of the population so that political control can be exercised "with minimal dispute and resistance" (Gamble, 1988: 1). In this way, hegemonic projects seek to organise the state, economy and society around a core set of principles which are capable of commanding the support of large swathes of the population. On the other hand, hegemonic projects are embedded within and conditioned by what

[46] That moments of hegemony are relatively rare does not imply that hegemonic *projects* are uncommon. Within advanced capitalist democracies, political parties typically have to advance holistic and integrated social and economic programmes if they hope to secure broad-based support and assume governmental power. As such, leading political programmes are typically oriented towards securing a 'hegemonic' status even if in practice the realisation of this status is unlikely.

Gramsci termed the "decisive nucleus of economic activity" (Gramsci, 1971: 161). This means that the kind of strategies which can be deployed to secure the support of the social base are (partially) delimited by the prevailing economic context and the various constraints and opportunities which this creates for state actors. For example, in a context of constrained economic growth and falling tax receipts, governments may struggle to continue to secure support through expanded state provision. In such circumstances, it is the task of hegemonic leadership to advance a reformulated governing programme which is compatible with the changed economic context and which is capable of mobilising subordinate groups behind the new mode of development.[47]

The above points all suggest an important connection between hegemonic projects, structure and agency. 'National popular' governing programmes which are capable of commanding cross-societal support do not just 'emerge' as a result of structural conditions. Rather, these programmes must be *constructed* by social agents seeking to secure support for their favoured programme of action. This will involve drawing on existing discourses and forging cross-societal alliances in order to build support for a particular strategic project (Bulmer & Joseph, 2015: 10). At the same time, the content of these projects and their likelihood of success are strongly conditioned by the prevailing structural and institutional context. For example, the relative strength of the City of London and its close links with the Treasury acted as a profound barrier to industrial strategy in Britain throughout the 19th and 20th centuries (Ingham, 1984). This means that hegemonic projects which have aimed to reverse British industrial decline through driving-up state-led investment in the industrial base have typically

[47] For example, as Fordism entered into a deep crisis in Britain in the mid-1970s, the framework of social compromise which it had supported began to unravel. Under these conditions, a range of distinct hegemonic projects emerged – from both the Left in the form of the 'Alternative Economic Strategy' and from the 'New Right' in the form of Thatcherism – which sought to establish alternative programmes of economic and social development in Britain (Hay, 1996a, 1999a; Jessop et al., 1988).

come up against persistent and formidable institutional obstacles (Coates, 1994; Gamble, 1985). These obstacles exist not just within 'civil society' - for example in the relative weakness of industrial capital in Britain - but also within the structure of the British state itself (Leys, 1990). The implication of this is that although hegemonic projects involve strategic interventions which seek to either 'preserve or transform' a given situation (Joseph, 2000: 181), some projects are more likely to succeed than others.

The Governmental Face of Hegemony

The above section outlines some of the generic features of legitimation strategies or 'hegemonic projects'. However, it is important to note that the concept of hegemony is utilised in a variety of different ways within the existing literature. For example, neo-Gramscian IPE tends to focus on 'state-society complexes' (Cox, 1981: 126; Van der Pijl, 2006), a concept which seeks to capture the ways in which powerful actors within civil society - in particular distinct 'fractions of capital' - work in concert with state actors in order to advance their long-term strategic interests.[48] In contrast, other approaches have emphasised the ways in which hegemony is exercised in the domain of culture and society (Hall & Jaques, 1983; Laclau & Mouffe, 2014). Whilst these approaches generate important insights into advanced capitalist development, the concept of 'hegemonic projects' will be utilised here in a more narrow and specific sense. Rather than focussing on the intersection between 'fractions of capital' and the state or on the 'cultural' dimensions of hegemonic practice (see: Hall & Jaques, 1983), the focus throughout this thesis will be on what could be termed the *governmental face of hegemony.* This focus is narrower than classic treatments of hegemony in two senses.

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[48] For example, Van Apeldoorn's work examines the ways in which the European Roundtable of Industrialists (ERT) shaped the development of European integration in the late 1980s and early 1990s (Van Apeldoorn, 2003). Similarly, Henk Overbeek's early work on Britain traces the ways in which finance capital shaped the response to the crisis of Fordism in the 1980s (Overbeek, 1989b).

First, it is concerned with those forms of *state* intervention which are oriented towards – or can at least indirectly generate - relatively stable patterns of social and economic development over periods of time. The interconnection between the state and private actors grounded within civil society is therefore not methodologically central to this approach.[49] Rather, the focus is on the formal but distinctive capacity of state actors to pursue a range of strategies which are relatively autonomous of the immediate demands of any specific fraction of capital. Second, the analytical focus is therefore centred on the organisational capacities and strategic orientation of a relatively narrow range of actors, in particular those of political party leaderships when they come to assume office and exercise governmental power. This narrower focus on the strategic orientation of governing parties is justified on the grounds that within parliamentary democracies, successful hegemonic programmes will always be at least partly be mediated by and organised from within the governmental apparatus. Indeed, the Party was identified as a key institutional complex by Gramsci, who viewed the Party as the key organisation through which groups in civil society could cultivate a 'collective will' capable of winning and then exercising state power (Gramsci, 1971: 126; see also: Ryner, 2010: 555).

With these qualifications in mind, we can identify three forms of state intervention which are constitutive of the legitimation strategies or 'hegemonic projects' advanced by actors within the state. These are: the capacity of party leaderships to pursue governing strategies, to shape distributional outcomes and to strategically deploy ideas in order to secure support for particular programmes of social and economic development. Each of these forms of intervention represents a

[49] This relatively narrow focus on *governmental* attempts to secure legitimation represents a limitation in the scope of this thesis. A broader treatment of 'hegemony' across the 'pre' and 'post' crisis conjunctures would require a focus on the ways in which key fractions of British capital - particularly within the financial sector - served to shape the British state's social and political strategy within this period. However, the relatively narrow focus on the 'governmental' sphere is justified since the core aim of the thesis is to examine the extent to which the Coalition's political-economic programme represented a continuation of, or a rupture with, the strategy which was deployed by New Labour.

way in which state actors can intervene within society and in the economy in order to secure the legitimation for their favoured programme of development. These forms of state intervention will be drawn-upon in the subsequent empirical chapters in order to establish some of the key differences between the political economy of New Labour and the Coalition. Let us take each in turn.

Governing Strategy

In British political science, one leading approach which attempts to explain the rationale behind state intervention is the 'statecraft' approach. Pioneered by Jim Bulpitt (Bulpitt, 1983, 1986), the statecraft approach methodologically privileges those institutions and actors which populate the 'centre' of the British political system. In particular, the approach focuses on the ways in which actors around the "central governmental, and in particular the central bureaucratic departments" seek to forge control over the domain 'high politics' (Bulpitt, 1983: 60). This includes core state competences including defence, foreign affairs and macroeconomic policy. The core assumption of the statecraft approach is that elite politicians' primary concern is to win general elections and to achieve a degree of governing competence when in office (Bulpitt, 1983; Griffiths, 2015). The seemingly obvious guiding assumption which underpins the statecraft approach in fact contrasts with alternative explanations of state intervention in the economy and society. For example, in contrast to approaches which argue that economic policy should be viewed as the application of different 'ideas' about how the economy functions (Mirowski, 2013), the statecraft approach insists that economic policy choices should be understood in terms of the *political calculations* which underpin them. For example, Gamble's analysis of economic policy under Osborne emphasises the ways in which fiscal austerity was as much about securing governing competence and outmanoeuvring the Labour Party as it was about faithfully implementing a technical economic solution to Britain's economic difficulties

(Gamble, 2015a). In this way, the statecraft approach insists that political analysis needs to take into account the ways in which elite strategy and political calculation play a key role in shaping state interventions and policy outcomes. In addition, the statecraft approach assumes that policymakers have at least a limited capacity to pursue a range of different economic and political strategies during a given period. As such, they do not 'automatically' implement policies which favour capital, as is sometimes assumed by some variants of structural Marxism (Althusser, 2014). Rather, economic policymaking is contingent on a range of political considerations and calculations pertaining to the broader electoral and political context.

The statecraft approach has been applied to understand a range of issues in British politics, including the devolution agenda (Bradbury, 2006), the relation between the Conservative Party and the EU (Buller, 2000), and party political strategy under the Cameron government (Hayton, 2013). However, the approach has been critiqued for focusing on a narrow range of actors and for underplaying the role that ideas play in the formulation and execution of government policy (Griffiths, 2015). These limitations aside, the basic insights and analytical strategies associated with the statecraft approach can be broadened so as to complement our own concern with the legitimation strategies or 'hegemonic projects' advanced by state managers. First, insofar as state actors play a key role in advancing governing programmes capable of securing broad-based support – and in parliamentary democracies it can be assumed that this will nearly always be the case – the statecraft approach draws attention to the ways in which such programmes are often strongly conditioned by electoral calculations and short-term political considerations. The statecraft approach therefore complements our concern with the 'governmental face of hegemony' insofar as it (partly) explains the motivation of political actors seeking to secure economic growth and governing legitimacy. Second, the statecraft approach's emphasis on political strategy and electoral calculation underlines the point that state intervention in the economy is always a contingent, political choice. Economic policy emerges not simply as a response to pressures emanating from the economic context but also – at least in part – as a result of strategic calculation made by policymakers. Within liberal democratic societies, perceived electoral imperatives will strongly shape the kinds of governing programmes which can be advanced by state actors. An emphasis on party political governing strategy therefore provides us with a good angle through which to understand the scope and possible limitations of different legitimation strategies or 'hegemonic projects'. As we shall see in relation to both New Labour and the Coalition government, this need to secure the requisite base of electoral and political support strongly conditioned the strategies pursued by both governments in both the pre- and post-crisis conjunctures.

Distributional Dimensions of State Strategy

Another tool which is likely to form a core component of any legitimation strategy is the state's capacity to redistribute portions of the social surplus to strategically significant social groups. Hegemonic projects do not only seek to incorporate subordinate social groups through cultivating a 'common sense' which is in line with the interests of leading social groups. They also seek to channel what Jessop terms "material concessions and symbolic rewards" to subordinate sections of the population (Jessop, 1990: 212). As Jessop writes, hegemonic projects typically embody "national-popular programme(s) of political, intellectual and moral leadership which advantage the long-term interests of the leading sectors in the accumulation strategy *while granting economic concessions to the masses of the social base*" (Jessop et al., 1988).[50] This represents one powerful mechanism through which subordinate social groups might be incorporated into the leading programme of development. This

[50] Emphasis added.

mechanism can in turn provide the basis for the continued legitimation and stabilisation of the dominant growth model.

The 'form' of the capitalist state – its formal separation from the economic sphere and its reliance upon securing revenues from taxable economic activity within the private sector – means that government actors are uniquely well-placed to engage in this kind of stabilising intervention (Jessop, 1990: 160). Other institutional complexes and interest groups within civil society are correspondingly ill-suited to perform this task. Private corporations, for example, are unlikely to be able (or willing) to redistribute their profits to the population in the name of securing social stability. Competitive market pressures and the structural pressures which drive firms to prioritise shareholder value ensure that private capital is typically not in a position to redistribute the requisite level of funds to the social base. As such, essential public goods and services cannot be delivered through private sector economic activity alone. However, private capital invariably relies on these public goods – largescale infrastructure projects, a relatively stable investment environment, a well-trained and educated labour force – if it is to function effectively at all (Gough, 1985). It is here, again, where the state can perform a crucial role in securing broad-based support for a particular programme of action. This power resides primarily in the state's unique capacity to impose tax liabilities on firms and households and to re-invest those revenues in discretionary spending programmes. For example, in a context of rising economic growth, the government may choose to offer tax cuts in order to secure the support of strategically significant sections of the social base. Alternatively, the government may choose to increase spending on public services in order to secure the support of citizens. In each case, the state can play a crucial function in re-directing revenues to strategically significant social groups. As we shall see in the following chapter, this capacity to increase public expenditure in order to sustain political support was a fundamental – if often neglected – feature of New Labour's 'hybrid' regime of social and economic development.

The Strategic Deployment of Ideas

The third feature of the 'governmental face of hegemony' concerns the ways in which state actors can advance and cultivate *ideas* in order to secure support for far-reaching programmes of social, economic and political restructuring. An emphasis on the importance of ideas in shaping social and political outcomes takes us beyond the relatively narrow limits of the statecraft approach, with its focus on electoral strategy and elite calculation (Griffiths, 2015). This can be seen if we consider the debate as to whether Thatcherism was driven primarily by 'ideology' or by 'pragmatic' calculations. In analysing the emergence and consolidation of Thatcherism, some scholars emphasised its roots in 'New Right' ideology or its 'authoritarian populist' origins (Hall & Jacques, 1983; Hall, 1979). Others emphasised the strategic positioning of the Thatcher governments and drew attention to Thatcherism's essentially pragmatic and adaptable character (Beer, 1982; Bulpitt, 1986; Marsh & Rhodes, 1995; Riddell, 1983). These contending interpretations revolved around a dichotomy between 'ideas' on the one hand and 'strategy' on the other. However, as Jessop and Hay argued in a series of contributions, it is possible to transcend this duality by advancing an approach which *synthesises* these two positions (Hay, 1996; Jessop et al., 1988). Specifically, they argued that Thatcherism (and by implication other political projects) should be analysed in terms of the ways in which such projects *strategically deploy ideas in order to mobilise key sections of the population in support of distinctive programmes of social, economic and political restructuring* (Hay, 1996a, 1999b; Jessop et al., 1988). Thus, Jessop identifies the way in which the 'ideas' associated with Thatcherism - it's neo-Conservative vision of social order and its advocacy of 'popular capitalism' - were strategically connected to a specific accumulation strategy and state project (Jessop et al., 1988: 68 – 98).[51] Ideas, on this understanding, are not just a 'frame' through which policymakers understand, select and subsequently justify their policies; they also have an active, creative potential insofar as they can re-shape the expectations of citizens in ways which consolidate emergent political projects. Rather than viewing state intervention as a tactical response to perceived electoral imperatives – as is the case with the statecraft approach – Hay and Jessop's alternative reading draws attention to the ways in which ideas can be strategically deployed in order to *shape* social expectations and to actively build support for far-reaching programmes of action.

This emphasis on the key role that ideas play in shaping social and political outcomes is developed at greater length in Hay's later work (Hay, 1999a, 1999b, 2002b, 2004a). Hay's contribution focusses on the relation between moments of 'crisis' and state transformation (Hay, 1999b). The core of Hay's argument is that crises should not be viewed as objective or 'external' features of a social and economic system. Rather, 'crises' have to be interpreted subjectively by social and political actors. For example, the economic breakdowns of the 1970s revealed a series of structural weaknesses and dysfunctions at the heart of the British economy. These were reflected in the various dysfunctions associated with the 'stagflation' of this period: low productivity rates, increased levels of unemployment and declining profitability. However, Hay's argument is that the interpretation of the *cause* of these dysfunctions – the 'diagnosis' of the crisis – is not pre-determined by an 'objective' feature of the crisis itself. Rather, breakdowns in the economy and society have to be interpreted and 'narrated' by social and political actors. Thus, advancing a case study of the 'Winter of Discontent', Hay argues that the success of the New Right was based on its capacity to *narrate* the breakdowns of the 1970s as emblematic of an overloaded state at the mercy of militant trade unions (Hay, 1996a). However, alternative diagnoses of the crisis were also

[51] Similarly, in an early contribution Hay identified how Thatcherite housing policy synthesised neo-Conservative and neo-liberal discourses in order to augment a popular base of support for home ownership in general and for Thatcherite social policies in particular (Hay, 1992).

available. For example, the comparative weakness of the British economy in this period could have equally been attributed to the absence of a 'developmental state' or to the archaic structure of the British political system and its industrial base (Hay, 1999b; Marquand, 1988). Each of these 'diagnoses' would have led to very different kinds of state intervention and hence different patterns of social, economic and political reform. The key role of ideas then, is that they contribute to the crisis constructions which in turn sanction different kinds of state intervention and programmes of social and economic reform.

This capacity to 'narrate' crisis and to justify new rounds of state restructuring again underlines a key dimension of the 'governmental face' of hegemony. For example, Hay argues that the Conservatives under David Cameron effectively 'diagnosed' the 2008 crash as one of debt (Hay & Payne, 2015). In turn, this sanctioned a programme of deficit and debt reduction despite the fact that increased levels of public debt were in fact a consequence rather than a cause of the crash (Hay, 2013b). The deployment of 'ideas' about the economy - and the fact that these can often resonate with the 'everyday' experiences of citizens (Stanley, 2014) - allows governmental actors to secure broad-based support for far-reaching programmes of social, economic and political restructuring. As we shall see in Chapter Six, for example, the Coalition government's capacity to interpret and construct a series of novel distributional trends which emerged in the immediate post-crisis context – in particular the relative stagnation of real wages for in-work households and the relative protection of public sector pay – allowed the government to mobilise support for a distinctive 'two nations' hegemonic project within a context of constrained public spending and weak economic growth.

3.6 Conclusion

This chapter has outlined the conceptual framework to be deployed throughout this thesis. It has advanced an approach which draws upon a range of different theoretical currents within neo-Marxist state theory and regulationist political economy. At various points in the chapter, it has been shown how the conceptual framework will be operationalised throughout the remainder of this thesis. By way of conclusion, it is worthwhile to briefly summarise the key points of this chapter and to lay-out three ways in which the conceptual framework fits into the broader argument of this thesis.

First, the conceptual framework seeks to go beyond the limitations of the existing growth model perspective as outlined in Chapter Two. The growth model perspective is limited because it struggles to explain how British capitalism was *stabilised* throughout the pre-crisis conjuncture. Insofar as it attempts to identify mechanisms which might have stabilised pre-crisis British capitalism, it tends to appeal to a series of mechanisms which were *internal* to the finance-led growth model itself. For example, in the work of Crouch and Streeck, increased levels of private debt are conceived as generating a 'monetary fix' which (temporarily) sustained aggregate demand and economic growth throughout the pre-crisis conjuncture. However, this explanation fails to account for the ways in which forms of state intervention oriented towards securing alternative social objectives can operate in parallel with and can effectively stabilise 'finance-led' models of development. As will be argued in the following chapter, increased levels of public expenditure and the 'rolling out' of (limited) redistributivist social programmes under New Labour played a key role in stabilising Britain's growth model throughout the pre-crisis conjuncture. In contrast to existing accounts which characterise New Labour as *either* 'neoliberal' or 'social democratic', it will be argued that New Labour in fact deployed a *hybrid* regime of social and economic development. On the one hand, as the growth model perspective claims, the New Labour government did attempt to entrench and extend a distinctive finance-led growth model by increasingly subordinating economic policy to the perceived preferences of the financial markets (Ertürk et al., 2011; Shaw, 2012). At the same time, however, the Blair and Brown governments substantially increased spending on public services and boosted state-led job creation, 'rolling out' a series of flanking mechanisms which (partially) compensated those social groups which might otherwise have been excluded from the dominant finance-led growth model. The *combination* of these alternative developmental logics helps to explain how British capitalism was (temporarily) stabilised and reproduced throughout the pre-crisis conjuncture.

Second, the chapter also argued that existing regulationist approaches – represented in particular by the VNA – are limited in a number of respects. In particular, they struggle to explain the key role that *central state* institutions play in shaping, securing and stabilising advanced capitalist development over time. It was argued that the conception of legitimation strategies or 'hegemonic projects' can help to overcome this limitation. In addition, theories of hegemony can help to overcome the limited conception of the state which is implicitly utilised by the growth model perspective. Government actors do not only seek to secure the conditions for continued accumulation. They are also concerned with securing continued legitimation and in commanding a level of popular support within society. It was argued that the notion of hegemonic projects – defined here as relatively coherent governing programmes which seek to secure support for a particular model of development – can therefore be deployed to improve upon the existing growth model perspective. This formulation can provide us with an explanation of how phases of capitalist stability are secured without falling back on 'functionalist' explanations. For example, as will be argued in the following chapter, the stabilising effects of New Labour's public expenditure programme were not the outcome of an agentless, structural logic. Rather, public expenditure increases under New Labour were the result of strategic calculations on the part of the Party leadership as it attempted to secure broad-based political support. Three forms of state intervention underpin legitimation strategies in particular: the capacity of state managers to pursue distinctive *governing strategies,* to shape *distributional processes* and to *strategically deploy ideas* so as to build support for a preferred economic programme. In turn, these can help to underpin the stability of the dominant growth model over time.

Third, and relatedly, this conceptual framework provides us with a lens through to conceptualise continuity and change in Britain in the pre- and post-crisis conjunctures. The extent to which institutional or policy change can be identified depends, of course, on which policy area or institutional complex one isolates in ones' analysis (Marsh, 2010: 228). The conceptual framework advanced above suggests one way in which we can interrogate processes of continuity and change under New Labour and the Coalition. Specifically, we can distinguish between the various *accumulation strategies* deployed by policymakers on the one hand from the legitimation strategies or 'hegemonic projects' which they advanced on the other. To anticipate the argument of the subsequent chapters, whilst the Coalition effectively continued with New Labour's accumulation strategy and thereby re-established the conditions for a renewed wave of finance-led growth, it effectively broke with the legitimation strategy which New Labour had advanced in office. Whilst New Labour pursued an (incomplete and limited) 'One Nation' hegemonic project which sought to secure broad-based support through enhanced redistribution and state-led employment creation, the Coalition pursued a distinctive 'Two Nations' project which sought to secure a *limited* base of support amongst strategically significant sections of the social base. In order to advance these arguments, it is necessary to move away from conceptual considerations of this chapter towards an empirical analysis of the evolving political and economic programmes of New Labour and the Coalition in government.

4. New Labour's 'hybrid' political economy

> *New Labour is a hybrid regime, composed of two strands. However, one strand – the neo-liberal – is in the dominant position. The other strand—the social democratic—is subordinate...the latter social democratic part always remains subordinate to and dependent on the former dominant one and is constantly being 'transformed' into it.*
>
> (Hall, 2005: 328)

4.1 Introduction

The central aim of this thesis is to examine the extent to which the Coalition's political economy represented a *continuation of* or a *rupture with* the political economy of New Labour. This chapter examines New Labour's political economy in the 'pre-crisis conjuncture'. This refers principally to the period of time between New Labour's election victory in May 1997 and the financial crisis of September 2008. This was a period of consistent (if modest) GDP growth, low inflation, rising employment and sustained economic stability in Britain. However, as was argued in the previous chapter, such a period of relative stability cannot be secured through the operation of 'economic' logics alone. Rather, such periods of stable economic expansion are possible only insofar as accumulation is embedded within a complementary institutional nexus which can secure the conditions for continued economic growth and social legitimation over time. As argued in Chapter Three, in advanced capitalist societies institutions and actors within the state play a crucial role in securing such conditions. In light of these considerations, this chapter will focus on the political-economic strategy pursued by New Labour throughout the pre-crisis conjuncture. The chapter is therefore organised around three core research questions:

1. What was the 'character' of New Labour's political economy? Could it be characterised as 'neoliberal' or 'social democratic'?
2. In what ways did New Labour seek to sustain economic growth and secure governing legitimacy throughout the pre-crisis conjuncture?
3. Did New Labour's political economy give rise to a distinctive model or 'regime of development'?

In order to answer these questions, the chapter proceeds in four steps. The first section examines the origins of New Labour, focussing in particular on the internal party and policy reform which gripped the Labour Party throughout the 1980s and early 1990s. The second section then traces the evolution of New Labour's political economy in government, focussing on a range of different policy areas including its fiscal, monetary, labour market, welfare and financial regulation policy. It is argued that across these policy spheres New Labour largely consolidated and extended the neoliberalisation of the British economy which had begun under the Thatcher and Major governments. However, in a third section some important 'counter-tendencies' are identified. In particular, attention is drawn to New Labour's substantial increase in spending on public services from 2000 onwards and its development of mildly 'redistributivist' social policies in government. These suggest that New Labour's political economy was qualitatively distinct from previous rounds of neoliberalisation in the UK in some important respects. Consequently, in the fourth and final section it is argued that New Labour established a *'hybrid' regime of social and economic development* insofar as it's finance-led accumulation strategy was paralleled by a distinctive legitimation strategy or 'One Nation' hegemonic project. Whilst the former advanced the neoliberalisation of the British economy throughout the pre-crisis conjuncture, the latter was oriented towards securing broad-based support through channelling material concessions and symbolic rewards to the social base. This alternative characterisation of New Labour's 'hybrid' political economy improves on the existing literature in two important ways. First, it allows us to transcend the limitations of the existing 'growth model' perspective which tends to analytically privilege those forms of state intervention which actively facilitated financialisation in the pre-crisis conjuncture. Second, it provides us with a useful benchmark against which to conceptualise continuity and change under the Coalition in the post-crisis conjuncture.

4.2 The origins of New Labour's political economy: 'modernisation' or accommodation with Thatcherism?

The phrase 'New Labour' originally gained prominence around the time of the Labour Party's 1994 conference and was employed in Tony Blair's first speech as party leader in that year (Ludlam & Smith 2001: 9; Driver & Martell 2006: 3). This chapter will primarily focus on New Labour's evolving political-economic programme in the pre-crisis conjuncture, in other words on the period between May 1997 and April 2008. However, whilst Blair and Gordon Brown emphasised the novelty of their programme relative to previous Labour governments, it is important to note that New Labour was very much "the product of a cumulative process of change that spanned nearly two decades" (Heffernan & Chadwick 2003; see also: Bevir 2009). As such, in order to understand the emergence and evolution of New Labour's political economy in the pre-crisis conjuncture it is necessary to briefly take stock of the process of internal party reform and policy reformulation which had been put in place before Tony Blair became the leader of the Labour Party.

It is possible to identify a number of pivotal moments which prefigured the emergence of New Labour. In the aftermath of Michael Foot's crushing 1983 election defeat, Neil Kinnock became leader of the Labour Party with 71% of the vote in the leadership election (Marr 2007: 451). During his time as leader of the opposition from 1983 to 1992, Kinnock utilised this strong mandate to pursue two main lines of internal party reform. First, Kinnock set out to severely restrict the influence which radical activists within the constituencies and trade unions had upon the formulation of Party policy and electoral strategy (Elliott 1993: 136; Panitch & Leys 2001: 220).[52] With this in mind, policymaking control was wrested from the National Executive Council and party conference – both organs through which extra-parliamentary activists could exert considerable influence – and the strategic direction of the party was increasingly concentrated in the hands of the leadership (Panitch & Leys 2001: 219). In line with this centralising approach, Kinnock created new mechanisms of party strategy and communication – in particular the 'Campaigns and Communications Directorate' and the 'Shadow Communications Agency' - which fell under the control of Peter Mandelson and Philip Gould respectively.[53] The principal goal of these units was to produce policies which were 'in tune' with the attitudes of the electorate whilst simultaneously gaining support from key sections of the mainstream media (Seldon 1996: 280).

Kinnock's first term as leader of the opposition was therefore largely concerned with securing internal organisational reform and consolidating control at the centre (Pearce & Stewart 1996: 565). The result was that in terms of its policy platform, the manifesto for the 1987 general election campaign "was essentially a watered down version of the 1983 manifesto", albeit with some minor modifications (Driver & Martell 2006: 34). The party remained committed to unilateral disarmament, to repealing the bulk of Thatcher's anti-trade union laws, and to taking privatised industries – notably

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[52] Activists on the 'hard' Labour left were deemed to be out of touch with the sensibilities of the average British voter, in particular those who happened to reside in key 'marginal' constituencies. Freezing-out the influence of these recalcitrant sections of the party was therefore identified as a crucial precondition of returning a Labour government in the future (Leys, 1996). Kinnock directly confronted leading elements of the 'hard' Labour left. This was symbolised most famously in the leadership's confrontation with and subsequent expulsion of the Trotskyite entryist 'Militant' tendency, in Kinnock's inaction during the Miner's strike of 1984-5, and in the Party's marginalisation of so-called 'municipal socialist' labour councils (Elliott 1993: 137; Leys 1996).

[53] Both men, of course, were to become key architects of the New Labour project both in opposition and in government.

British Gas and British Telecom – back into public ownership (Elliott 1993: 138; Driver & Martell 2006: 34). However, after the Conservatives won the 1987 election with a large majority of 101 seats, Kinnock initiated a second wave of reform – in the face of considerable opposition from the party's left wing - which sought to comprehensively audit and update the party's policy platform (Gamble & Kelly 2001: 170; Bevir 2009). This involved the implementation of the *Policy Review*, the goal of which was to formulate a policy platform which could win back Conservative voters and secure victory at the next general election (Leys 1996: 11).[54] The results of the Policy Review were first published two years later in a series of policy documents including *Meet the Challenge, Make the Change* (1989), followed by *Looking to the Future* (1990) and *Opportunity Britain* (1991) (Elliott 1993: 148 - 152; Pearce & Stewart 1996).

The Policy Review recommended a thoroughgoing reformulation of Labour's policy platform. Most significantly, it initiated a marked reformulation of its macroeconomic approach. The review rejected the capacity of Keynesian demand management techniques to secure economic growth and full employment (Ludlam 2001; Bevir 2009). Labour now subordinated the goal of achieving full employment to that of securing price stability and low inflation. This was confirmed in the leadership's support of the European Exchange Rate Mechanism in 1989 (Panitch & Leys 2001: 237), a move which was intended to demonstrate that Labour would not baulk at controlling inflation even if the cost would be higher unemployment. As such, and in anticipation of New Labour's later economic strategy, the Party began to place a much greater emphasis on developing a stable monetary framework which would promote long-term stability in interest and exchange rates as the principal goal of macroeconomic policy (Bevir, 2009b). In addition, Labour reversed its commitment to expanding public ownership and reneged on its goal of re-nationalising the privatised

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[54] The *Policy Review* formally lasted from 1987 – 1991. However, as Chadwick and Heffernan have pointed out, informal policy revision continued right up to the 1992 general election (Chadwick and Heffernan 2003: 11)

industries[55] (Chadwick & Heffernan 2003: 11). The review also pledged not to reverse the main elements of the new industrial relations framework which had been put in place under the Thatcher governments, accepting for example the ban on secondary picketing and the closed shop. Again, in anticipation of the New Labour's political economy,[56] these changes were justified with respect to the 'constraints' of the new, globalised economy (Gamble & Kelly 2001: 171).

New Labour was therefore born of two trends which emerged out of the tumultuous years of the 1980s. First, the centralisation of control in the hands of the Party leadership and the marginalisation of radical activists provided Blair and Brown with the internal organisational tools they needed to continue with the process of party 'modernisation' as they conceived it (Finlayson 1998; Panitch & Leys 2001; Watkins 2003). Second, the wide-ranging reformulation of the Party's economic and social policy initiated under the *Policy Review* established an intellectual rationale for a new economic strategy, unencumbered by the protectionist alternative economic strategy favoured by the Labour Left in the 1980s (Thompson, 1996).

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[55] Save for 'essential services' such as the public utilities (Hay, 1999: 49).

[56] The Policy Review's recommendations were endorsed by Conferences in 1989 and 1990 and were subsequently incorporated into the Labour's 1992 election manifesto, *Time to Get Britain Working Again* (Shaw 1993: 115). However, in spite of the substantial reforms which Kinnock had initiated and in spite of a consistent lead in the pre-election polls, Labour lost the 1992 general election to John Major's Conservative Party. John Smith subsequently became leader and sought to maintain party unity in the aftermath of the election defeat (Bevir 2009: 14). As a result, over Smith's two years as leader of the party, his strategy was one of "cautious continuation of modernisation and a further refining of Kinnock's policy reforms" (Smith 1994: 712). For example, Smith's *Commission on Social Justice* re-affirmed the key recommendations of the Policy Review and – in spite of his apparently close relationship with the trade unions (McSmith, 1994) – the new leader successfully secured a further reduction in union representation in the electoral college system, taking it down from 40 to 33 per cent (Bevir 2009: 15). Whilst some have argued that the 'modernisation' process experienced a 'brief pause' under Smith – he supported Clause IV in spite of pressures from other 'modernisers' to repeal it – the trajectory of reform was not derailed in the aftermath of the 1992 election defeat (Heffernan 2000: 81).

One point of consensus in the literature is that between 1983 and 1997, Labour underwent a profound transformation. However, there has been considerable disagreement over which factors drove these changes, the degree to which they were inevitable and/or desirable, and the extent to which the subsequent reforms represented a break with Labour's social democratic past (Hughes & Wintour 1992; Hay 1994, 1997, 1999; Smith 1994; Wickham-Jones 1995; Kenny & Smith 1997). In the early literature on New Labour, two views became particularly prominent which engaged with these questions. These were characterised by Colin Hay as the 'modernisation thesis' and the 'accommodation thesis' (Hay 1999: 58). These competing interpretations of the New Labour project anticipated future debates on whether the Blair and Brown governments were essentially 'neoliberal' or 'social democratic' in nature. It is therefore worthwhile to briefly review these earlier debates before turning to the policies which underpinned New Labour's political economy in government.

According to the so-called 'modernisation thesis', the process of policy change and internal party reform which culminated in the emergence of New Labour was caused by two principal factors. The first was that the Labour Party was forced to change its political orientation due to new electoral constraints (Hughes & Wintour, 1992). After four successive election defeats, the Labour leadership increasingly came to recognise that central aspects of the Party's policy platform remained deeply unpopular with key sections of the electorate, in particular with that crucial bloc of voters in marginal constituencies in so-called 'Middle England' (Fielding 2003: 113; Shaw 2007: 115). Labour's policy changes – consciously moving into the so-called electoral 'centre-ground' – were therefore explained as an (ultimately successful) attempt to incorporate these key voters into a broad electoral alliance (Hindmoor, 2004). The second argument of the 'modernisation' thesis was that fundamental changes in the global economy meant that the Party had to reform its policy platform if it was to seriously contend for power. Arguing in this vein in the immediate aftermath of Labour's 1997 election victory, Kenny and Smith wrote that, "the external economic environment in which Britain operates has changed fundamentally in the last twenty years…policy has to be conceived and applied in the context of the globalisation of financial markets, the fundamental reconfiguration of international economic power and a transformed macroeconomic environment in which interest rates, inflation and public sector borrowing are far more difficult to manage" (Kenny & Smith 1997: 226).

For advocates of the 'modernisation' thesis, the reforms which were implemented under Kinnock, Smith and then Blair were viewed as part of a process through which the Labour leadership came to terms with a social, economic and political context which had radically changed since the 1970s. This context had of course been profoundly shaped by over a decade of Thatcherism (Jessop et al. 1988). Importantly, however, whilst advocates of the modernisation thesis recognised that Labour's reformulated platform brought it more closely in line with Thatcherite social and economic policy, they also insisted that this did not mean that Labour had simply accommodated itself to a new Thatcherite consensus (Smith 1994: 709). Rather, advocates of the 'modernisation' thesis argued that New Labour's policy orientation could be viewed as a continuation of its social democratic past, albeit reformulated so as to take account of new social and economic conditions (Gamble & Wright 1999: 1).

In particular, a number of scholars emphasised the continuity between Labour's post-Policy Review platform and the approach which had been adopted by earlier Labour Party 'revisionists' such as Hugh Gaitskell and Tony Crosland (Smith 1992, 1994: 709). The core principle of revisionism was that it accepted the basic framework of a competitive market economy but sought to reconcile this with a particular conception of social justice (Vincent 1998). Rather than seeking to challenge established patterns of ownership, revisionists sought to harness the power of the market economy in order to increase productivity and government revenues. This in turn would allow for an expansion of public expenditure and welfare spending and increased redistribution (Driver & Martell 2006: 57). According to the modernisation argument, the reforms of the late 1980s returned Labour to this revisionist position but updated this revisionism for the 'new times' of an increasingly integrated global capitalist order. On the one hand, in contrast to the Labour Left, it accepted the constraints of the new 'globalised' economy (Gamble & Kelly, 2001). Kinnock's abandonment of nationalisation as a tool and goal of economic policy, for example, could be viewed not as an abandonment of 'Old' Labour revisionist principles but rather as an adaptation of these principles for modern times (Smith 1994: 710). On the other hand, the modernisers argued that Kinnock and then Brown and Blair sought to reconcile this acceptance of the 'market' with a particular conception of social justice and redistribution. As such, after the Policy Review the Labour Party continued to accord a key role to government insofar as it was required to "rectify inherent inequalities and to supply certain public goods" (Smith 1994: 710). Advocates of the modernisation thesis argued that this continuing role for the state stood in marked contrast to the Thatcherite view which saw the market as the principal distributive mechanism. As such, whilst the 'modernisers' accepted key elements of the new political and economic terrain that Thatcherism had ushered in, in important respects this acceptance was qualified and rendered compatible with earlier iterations of Labourism and social democracy.

This account of 'modernisation' represents an important contribution to the literature, not least because it closely accords with the way in which leading figures within New Labour conceived of their own political project (Giddens, 1998). However, the modernisation thesis was strongly disputed by a number of scholars, most notably by Colin Hay in his early critique of New Labour's political economy (see also: Finlayson, 2009b; Hay, 1999d). Hay rejected the economic and electoral assumptions which underpinned the modernisation thesis. First, he disputed the claim that changes in the global economy forced the Labour Party to pursue the particular reforms which it adopted during the Policy Review process and which were subsequently consolidated and extended under Blair and Brown (Hay, 1999d). This aspect of the modernisation thesis – that 'globalisation' forces political parties to adopt certain (regressive) social and economic policies – suffers from what Hay with Watson termed a 'residual economic determinism'; it attempts to 'read-off' policy change from supposedly non-negotiable shifts in the structure of the international political economy (Hay 1994; Watson & Hay 2003: 296). However, such an approach fails to account for policymakers' continuing capacity to pursue a range of different social and economic policies in response to changing international economic conditions. For Hay, globalisation is not just an external force which exerts a singular, incontestable logic on policymakers (Hay, 2002b). Rather, a variety of different interpretations or 'narrations' of globalisation are in principle possible (Hay & Smith, 2005). The changes in the international economy which were taking place from the mid-1970s onwards could indeed sustain a Thatcherite narrative which promoted labour market deregulation, financial market liberalisation and anti-trade union legislation as the route to international competitiveness. However, crucially, this was *not the only policy narrative which was available to policymakers at the time.* Rather, alternative diagnoses of the structural failings of the British economy and of the way in which these failings might be rectified were also available (Coates & Hay, 2001). As such, the construction of and response to 'globalisation' is to a significant extent a contingent political choice.

This point is underlined if we consider the way in which New Labour consolidated core aspects of the Thatcher policy programme at precisely the moment when its various failings were becoming increasingly apparent (Hay, 1999d). For example, the UK's forced withdrawal from the ERM in September 1992 powerfully exposed the contradictions at the heart of the Thatcherite growth model and underscored the chronic imbalances which endured at the heart of the British economy (Hay, 1999d; Peck & Tickell, 1992). By 1992 unemployment stood at 2.3 million and successive Conservative governments had not successfully squeezed out inflation. Rather, by the early 1990s the UK still experienced the second highest inflation rate of any advanced economy and the third highest volatility in its inflation rate (Elliott 1993: 105; Peston 2005a: 116). In addition, rates of investment – particularly in high-end manufacturing and in research and development - were consistently low compared to comparator states, a fact which was compounded by the continued short-termism of British financial markets and the absence of long-term capital investment in industry (Hutton 2011). Hay's argument was that alternative diagnoses of Britain's economic condition were therefore entirely possible (and indeed necessary) in the years that New Labour was beginning to establish itself as a relatively coherent and unified political entity. The long-standing structural failings of the British economy – its short-termism, its relatively weak industrial base, its persistent lack of a coherent industrial strategy – could have resulted in an alternative policy platform by the Labour Party. In this regard, Hay argued – in line with the 'Stakeholderism' of Will Hutton and David Marquand (Marquand 1988; Hutton 2011) – that Labour should have instead adopted a 'developmental state' strategy which would have focussed on expanding the industrial base and harnessing export-led economic growth (see also: Krieger, 2007). In failing to do so, the Labour Party's effectively internalised a distinctively Thatcherite understanding of the constraints of globalisation into its own policymaking and then mobilised this understanding in order to secure 'credibility' with the financial markets as well as with key sections of the electorate.

This relates to the second aspect of Hay's argument against the 'modernisation' thesis – its claim that the Policy Review reforms were the only route back to power given the prevailing electoral constraints in Britain. Hay rejects this position because it assumes that the electorate has a set of pre-given, static preferences which policymakers must accommodate if they hope to secure power. However, this understates the degree to which political parties can exercise leadership and thereby actively shape the preferences of citizens (Hay, 2002c). Indeed, ironically this was precisely what the 'New Right' had achieved under Thatcher – it had advanced a particular 'narration' of the crisis of the 1970s and had then successfully restructured the state and society in accordance with its own crisis diagnosis (Hay, 1996a). Hay's argument was that armed with an alternative diagnosis of Britain's economic ills and with an alternative political programme, the Labour Party could have itself engaged in a 'preference-shaping' electoral strategy (Hay, 1999d). Labour's failure to do so meant that the Party internalised the neoliberal diagnosis of Thatcher period, ushering in a "post-Thatcher yet basically Thatcherite consensus" between Britain's two major political parties (Hay 1999: 22). This meant that from the very beginning, New Labour's political economy rested upon an internalisation of the same problems which had dogged the Conservatives through the 1980s and 1990s. This internalisation of the basic principles of the Thatcherite accumulation strategy – and the consequent failure to redress the basic structural weaknesses of the British economy – was to be an on-going feature of the British economy under New Labour.

The 'modernisation versus accommodation' debate has two implications for the argument which follows. First, the debate represented an early attempt to determine whether New Labour's economic programme was 'neoliberal' or 'social democratic' in orientation. In the following sections I provide a critical review of these competing interpretations of the Blair and Brown governments and then advance an alternative characterisation of New Labour's political economy which emphasises its 'hybrid' character. Second, in line with Hay's argument, the position taken here is that New Labour's political economy should not be viewed as the outcome of 'external' factors such as electoral constraints or globalisation. Rather, in explaining New Labour's political economy we need to pay attention to the role which strategic considerations played in the formulation of New Labour's economic policy. Crucially, it will be argued that New Labour's strategic orientation was shaped by two distinct but related objectives: its need to secure the conditions for continued economic growth and governing legitimacy. In the fourth section it will be argued that New Labour's attempt to reconcile these two objectives gave rise to a relatively coherent model or 'regime' of development which (temporarily) stabilised British capitalism throughout the pre-crisis conjuncture.

4.3 New Labour and neoliberalism: macroeconomic, labour market, welfare and financial regulation policy

Some scholars have classified the Blair and Brown governments as pursuing a 'neoliberal' governing programme *par excellence* (Coates, 2013; Hall, 2005; Hay, 2002c; Heffernan, 2000). Before assessing this claim it is important to recall that neoliberalism should not be viewed as a homogenous and uniform project which simply seeks to reduce the size of the state relative to the market. Rather, as was argued in Chapter Three, neoliberalisation processes always take place within and must negotiate densely structured institutional environments which typically sustain alternative and often competing logics of social organisation (Peck 2010: 7). This means that such programmes will always display *sui generis* and systematically uneven characteristics relative to other capitalist varieties (Peck & Theodore, 2007). However, this hybridity does not mean that such programmes don't share certain characteristics (Peck 2010: 11). Rather, neoliberal programmes are typically underpinned by a shared strategic directionality insofar as they seek to deploy state power in order to enhance the position of the market as the leading distributive mechanism within society. This common characteristic means that we can identify a number of ideal typical features of the neoliberalisation process which will characteristically be in evidence across advanced capitalist societies. Jessop identifies six such tendencies (Jessop 2007: 283):[57]

- *Liberalisation*
- *Deregulation*
- *Re-commodification*
- *Privatisation*
- *Internationalisation*
- *Reduced direct taxes*

It is important to note that this list of neoliberalisation 'tendencies' is *ideal typical*. This means that we should not expect to witness all of the above trends as fully operative in every 'neoliberal' society (see also: Scharpf, 2010: 234). In addition, as argued in Chapter Three, there are always likely to be 'counter-tendencies' - what were referred to previously as 'flanking mechanisms' (Graefe, 2006) - to the

[57] It is worth briefly stating what each of these aspects involves. *Liberalisation* involves "promoting free market (as opposed to state monopolistic) forms of competition as the most efficient basis for market forces" (Jessop 2003: 5). As this implies, liberalisation must be understood in relation to the historically specific 'non-liberal' institutional terrain within which it develops. As Streeck and Thelen point out, the pursuit of liberalisation in advanced capitalist societies has led to "a secular expansion of market relations inside and across the borders of national political-economic systems, *significantly beyond the limits that the organized capitalism of the post-war 'mixed economy' had set for them* (Streeck & Thelen 2005: 2).[57] *Deregulation* relates to the legal (and political) process of removing extra-economic constraints on the market mechanism through legislative means. It is therefore is a key aspect of the broader liberalisation process and a key strategic area of reform for neo-liberal policymakers. *Re-commodification* relates to the process of subjecting certain elements of the 'extra-economic' sphere – in particular land, labour and money – to the logic of the market mechanism (Polanyi 2001). *Privatisation* involves the process of transferring ownership from the public to the private sphere. *Internationalisation* includes attempts to draw international capital into the domestic economy whilst simultaneously promoting external policies which promote the interests of transnational capital on a world scale (Jessop 2003: 6). This characteristically involves an empowerment of those government agencies such as finance ministries which act as points of interaction between the 'domestic' and 'international' scales of the capitalist order (Cox 1981: 144). Finally, *reduced direct taxes* involve the attempt to move the burden of financing the state from (typically wealthier) households and firms to citizens lower down the income scale. This process has been characterised as involving a transition from a 'tax' state which secures revenues through (generally 'progressive') taxation to a 'debt' state which relies upon increasing levels of private and public indebtedness (as well as regressive forms of taxation) to fund its activities (Streeck 2014: 76).

neoliberalisation processes identified above. For example, under conditions of neoliberalisation depressed regions may exhibit signs of *de*-internationalisation as their production structures become less integrated into global supply chains (Tomlinson, 2012a). With these qualifications in mind, we can use the above six neoliberalisation tendencies as a benchmark against which to judge the extent to which New Labour extended neoliberalisation throughout the pre-crisis conjuncture. In the following section five key economic policy areas under New Labour in the pre-crisis conjuncture will be analysed in this regard. In each case it is argued that New Labour's economic strategy consolidated and deepened the 'neoliberalisation' of the British economy throughout the pre-crisis conjuncture.

Fiscal and Monetary Policy

In assessing New Labour's political economy it is important to bear in mind that the Party's primary objective was to return a Labour majority government after eighteen years of Conservative rule. Its second objective was to retain power once it got into office. New Labour's economic policy was deeply conditioned by these fundamental considerations. Understanding New Labour's statecraft – "the art of winning elections and [of] achieving a necessary degree of governing competence in office" – is therefore an essential component of any analysis of its political-economic strategy (Bulpitt, 1986). The Party's electoral strategy in the run-up to the 1997 general election and after was underpinned by two complimentary objectives in this regard. On the one hand, it sought to dispel any fears that a Labour government would be reckless with the public finances (Shaw, 2007). New Labour strategists were convinced the Party's enduring status as a 'high tax' political outfit had lost it the 1992 election (Panitch & Leys 2001: 251). As such, New Labour aimed to shed this image and to re-assure the electorate that it could be trusted to run the economy efficiently without implementing punitive tax increases or engaging in reckless borrowing. In addition, both Brown and Blair were convinced that winning the active support of business – and in particular the confidence of actors within the international financial markets – was a crucial pre-condition of establishing economic and political credibility (Andersson et al. 2011: 115). Previous Labour governments had regularly experienced a loss in market confidence upon entering office, resulting in capital flight and increased interest rates as the City took fright at the prospect of higher inflation and increased public spending (Fielding 2003: 147; McAnulla 2006: 122). New Labour's strategy was to anticipate these fears and to placate them before financial actors crippled them in government (Coates, 2001a). The second element of New Labour's political strategy was to ruthlessly capitalise on the perception that John Major's government was economically incompetent. Ever since the forced devaluation of Sterling after 'Black Wednesday', the economic credibility of the Major government had been profoundly compromised (Driver & Martell 2006: 69). The symbolic significance of this was central to Brown's strategic thinking as he sought to entrench Labour's new-found advantage on economic credibility (Peston 2005a: 116). New Labour's strategy was therefore to define itself against both the perceived imprudence of past 'Old' Labour governments as well as against the perceived incompetence of the Conservatives.

This goal of securing governing competence in the eyes of the electorate and credibility with international creditor institutions was the guiding principle of New Labour's macroeconomic policy both in opposition and in government (Burnham 2001: 128). It is important, however, to be clear about what New Labour strategists meant by this term. In essence, 'credibility' was about ensuring price stability and protecting "the solidity of the vital measure of value – money" (Shaw 2007: 161). Other measures of economic performance – such as increased employment or rising real incomes - were presented primarily as the outcomes of a stable and 'prudent' monetary and fiscal framework.[58] As was outlined previously, Labour's move to prioritise inflation control had already been set in place in the period following the Policy Review. However under Brown – in close coordination with his economic advisor, Ed Balls – Labour's counter-inflationary credentials were consolidated further (Kitson & Wilkinson 2007: 806). Price stability and business 'confidence', they argued, rested on two fundamental preconditions: the government's capacity to control public expenditure and borrowing on the one hand and the effectiveness of its monetary policy regime on the other. New Labour's macroeconomic strategy in the pre-crisis conjuncture rested fundamentally upon establishing these two objectives (Keegan, 2003).

In terms of public spending, Brown famously developed what he termed two 'fiscal rules'. Originally outlined in a speech in May 1995, these rules stated that:

> "First, Labour will be committed to meeting the golden rule of borrowing – over the economic cycle, government will only borrow to finance public investment and not to fund public consumption. Second… we will keep the ratio of government debt to GDP stable on average over the economic cycle at a prudent and stable level"
>
> (Brown, 1995, cited in Keegan 2003: 145)

The first of these – the 'golden rule' - was intended to re-assure business and the electorate that increased current spending would only be funded out of tax revenues generated through economic growth. Any additional borrowing would be utilised only to fuel capital investment. This was intended to neutralise Conservative claims that Labour would increase borrowing to fuel day-to-day spending in areas such as education, healthcare and transport, whilst establishing some 'wriggle room' for increased investment in infrastructure. The second of the fiscal rules sought to place

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[58] As Blair put it, controlling inflation was "the single biggest thing that will encourage business to invest"; it was the "essential platform" for Labour's policy, along with establishing 'prudent' levels of taxation and constraints on borrowing (Fielding 2003: 152).

Britain's public debt at a 'prudent' level, which Brown later defined as securing a debt-to-GDP ratio of 40% (Fielding, 2003). These rules were subsequently incorporated into the Party's manifesto for the 1997 general election, *New Labour: New Hope for Britain* and formed a core aspect of Brown's first budget in July 1997 (Brown, 1997). The fiscal rules were broadly adhered to until 2008, when they were 'quietly abandoned' by Alistair Darling in the midst of the financial crisis (Hodson & Mabbett 2009: 1053).

In addition to developing this 'rule-based' fiscal framework, Brown aimed to consolidate Labour's position as being 'tough' on public spending by committing to Conservative spending plans for the first two years of government. As Chancellor, Brown successfully followed through on this policy: public spending fell from 41% of GDP in 1997 to 37.7% in 2000 (Driver & Martell 2006: 75). As a result, over Labour's first term, public spending fell to a lower level than it had been at throughout Major's premiership. These constraints on public spending and on borrowing were complemented by a second aspect of New Labour's fiscal policy: its position on taxation. Again, New Labour's policies here were designed to distance the Party from its supposedly profligate 'Old' Labour past. In this regard, New Labour symbolically ruled-out an increase in the top rate of income tax.[59] This position remained intact under New Labour throughout the pre-crisis conjuncture, with the 50p rate only being re-established in the March 2008 budget in the midst of the financial crisis (Diamond 2013: 98). With respect to securing 'credibility' with business, Labour committed to *inter alia* maintaining low levels of corporation tax, cutting the rate from 33% in 1997 to 28% a decade later (Murphy, 2007). The result was that "receipts from corporation tax fell from £34.3 billion for 1999/2000 to £28.8 billion in 2002/3, [during] a period

[59] This, again, was largely a response to the perception that the 1992 election had been lost due to John Smith's 'tax bombshell'. For Blair and his inner-circle it was of paramount political importance to rule-out any increases in either the basic or the top rate of taxation (Peston 2005: 252).Whilst Brown accepted the position on the basic rate, he was initially reluctant to rule out an increase in the top rate of income tax on the grounds that this could limit his capacity to provide funds for improved public services in the future (Keegan 2003: 148). However, after considerable debate with Blair's inner circle, the then-shadow Chancellor agreed to accept that the top rate of tax would not be increased in the first term of a Labour government.

of increasing corporate profits" (Shaw, 2007). As a result, by 2005 corporate tax payments accounted for the smallest ever share of national income. By 2009, Britain had the second lowest rate of corporation taxation of the G7 economies (Toynbee & Walker 2011: 71). In a further attempt to secure the confidence of business and of middle class sections of the electorate, Labour also cut capital gains tax on business assets from 40% to 10% over a period of four years (ibid: 81).

In addition to New Labour's 'constrained' approach to fiscal policy, the Party also sought to establish credibility through adopting a novel framework for monetary policy. In the past, the City had traditionally not trusted Labour to effectively protect the integrity of Sterling. Traders often feared that Labour would yield to pressures to lower interest rates in order to temporarily boost growth and employment, particularly in periods immediately before a general election (Coates & Hay 2001: 458). This loosening of monetary policy would lead to periodic increases in inflation and a corresponding loss of counter-inflationary credibility (ibid*:* 459). From the late 1980s onwards, leading Labour figures indicated that in order achieve a regime of 'sound money' a new approach was needed.[60]

On 6th May 1997 – less than a week after the general election – Brown ceded 'operational independence' to the Bank of England. This move had been carefully devised since 1994 by Brown in concert with Ed Balls (Baker 1999: 91; Peston 2005: 115). Operational independence handed the responsibility of setting interest rates – traditionally one of the core competences of the Chancellor – to the newly-created Monetary Policy Committee (MPC). This nominally independent body – chaired by the Governor of the Bank of England and composed of bank executives and technocrats –

[60] Of course, establishing such a framework was not exclusively a Labour economic objective. The Conservatives under Thatcher and then Major had also attempted to use different tools to control inflation, through monetary targeting in the early 1980s through to backing membership of the ERM in the early 1990s (Keegan 2003: 154). For different reasons, however, both these regimes unravelled. Under New Labour the goal of establishing low inflation would be the same; the means to achieve it, however, would be considerably different.

was charged with hitting an 'inflation target', initially set at a rate of 2.5%.[61] In addition, the Bank was required to continue to provide quarterly inflation reports to the Treasury and, in the event of missing the target, the Governor would be obliged to write a report to the Chancellor outlining the reasons for his or her failure and the action s/he would take to remedy the situation.[62]

The development of this distinctive monetary policy framework was of considerable political utility to the Chancellor. First, it was a move of key symbolic importance in securing Labour's 'credibility' with the financial markets early-on in Brown's Chancellorship. In this regard, the policy was successful. As a subsequent submission from the Bank of England to the Treasury Select Committee put it, "the delegation of the operational responsibility for setting interest rates to the MPC in 1997 was... associated with an immediate credibility gain, with long-term inflation expectations falling sharply to around the new point target" (Bank of England 2007: 7). Second, it allowed the government to distance itself from any negative backlash which might have occurred if interest rates did in fact increase (Flinders & Buller 2006: 296). Balls had acknowledged this point explicitly in a speech in 1995, when he said that ceding independence to the Bank would "bring substantial benefits as well as a credibility boost. It would allow a Labour government the political freedom to criticise or express doubts about interest rate increases even when there is clearly little option but to raise them… independence means there is someone [other than the government] to blame" (Balls 1995, cited in Peston 2005: 125). Third, whilst the Bank now had 'operational' independence, the Treasury in practice retained crucial levers of control over the MPC. For example, the Chancellor set the overall inflation target, retained the

[61] The target was 'symmetrical', meaning that the MPC was charged with achieving a rate of inflation which was within a 1% range of the target.

[62] Inflation-targeting and the publication of quarterly inflation reports were not put in place by Balls and Brown but were rather an innovation of the previous Chancellor, Kenneth Clarke. This underlines the point that the ceding of operational independence to the Bank should not be read as an entirely novel development but rather as the consolidation and the extension of changes which had already been made under the previous Conservative government (Hodson & Mabbett, 2009: 1044).

right to appoint the Governor of the Bank as well as external members of the MPC, and the Bank remained accountable to the Commons through the Treasury Select Committee. In this way, whilst the government benefited from the 'distancing effect' associated with operational independence, it retained considerable control over the broad framework for monetary policy implementation. Fourth, the Bank's independence (in combination with Brown's 'fiscal rules') empowered the Treasury relative to other departments. Since there was now no question of the Treasury backing down on interest rate commitments or of reneging on public spending targets, Brown's position was bolstered relative to other departments and, significantly, relative to the Office of the Prime Minister (Peston 2005: 76). For all the fanfare about this institutional change, however, important continuities remained in place. In particular, the objective of securing price stability endured as the principal goal of macroeconomic policy. Although Brown's macroeconomic policy was driven primarily by a series of political considerations, its effect was to effectively consolidate a macroeconomic regime which contributed to the ongoing neoliberalisation of the British economy throughout the pre-crisis conjuncture.

Labour market and welfare policy

New Labour's drive to establish fiscal discipline and price stability was flanked by a series of policies designed to enhance the competitiveness of Britain's labour market (Balls, 1998). In opposition, Labour had criticised the Conservatives for the rise in low pay jobs and the various 'opt-outs' from European directives on labour rights which they had secured when in office (Panitch & Leys 2001: 276). In its 1997 manifesto, the Party underlined its objective to reverse the low pay character of Britain's labour market, stating that "low pay and low skills go together... there is no future for Britain as a low wage economy: we cannot compete on wages with countries paying a tenth or a hundredth of British wages" (The Labour Party, 1997). By 2007, however, New Labour's professed goal to establish a 'high-wage, high-productivity' economy had not materialised. Instead, between 2003 and 2007, real wages did not grow at all for those on low-middle incomes, in spite of economic growth over this period of 11% (Plunkett 2011: 10). In addition, despite Brown's drive to increase labour productivity, the trend rate did not increase, meaning that the 'productivity gap' relative to other OECD countries remained in place (Keegan, 2003: 273; Shaw, 2007: 134). As David Coates wrote in 2010, "New Labour came into power in 1997 committed to the creation of a high-investment, high-productivity, high-wage domestic economy which it then failed to deliver" (Taylor 2007: 235; Coates 2013: 47).

A number of structural factors had contributed to the growth of low pay, low skill jobs in Britain throughout the 1980s and 1990s. In particular, the rapid loss of manufacturing jobs and the marked increase in low productivity service sector employment had contributed to a pay squeeze for low and middle income households. When New Labour came to power, it therefore inherited "a low-wage, long-hour, low-skill economy off the edge of a prosperous European market" (Coates, 2005: 184). However, between 1997 and 2007, the structural shift in the British labour market from manufacturing towards lower productivity service sector employment and the concomitant growth of low pay work was not reversed. Rather, it intensified. For example, one of the key factors driving the decline in manufacturing output and employment had been a relative lack of investment in productive activities relative to other sectors. Whilst manufacturing investment as a percentage of total manufacturing output was at "just over 13% as New Labour arrived in power…by 2003 that figure had dropped to a little over 9%"; as a proportion of GDP, manufacturing investment was 2.4% in 1998, but by 2002 it had fallen to 1.4% (Coates 2005: 174). In addition to the relative lack of investment in manufacturing, the high value of Sterling – a result of New Labour's regime of 'sound money', relatively high interest rates and fiscal discipline – further undermined the competitiveness of tradeable goods relative to comparator economies (Glyn & Wood, 2001: 52). The result of this was that "manufacturing declined faster [under New Labour] than during the Thatcher years ... [whereas] manufacturing amounted to 20% of the economy in 1997 … [it had fallen to] 12 per cent in 2007 (Toynbee & Walker, 2011: 90). This decline in output was paralleled by a continuing fall in manufacturing employment under New Labour. Whereas 4.3 million workers worked in manufacturing in 1997, just over 2.5 million did so by the end of the Labour government (BIS 2010, 8). The long-established trend towards an increasingly dominant service sector therefore continued. As services and house prices boomed from in Labour's first term, manufacturing entered recession (Keegan, 2003: 207). This dynamic continued throughout the pre-crisis conjuncture, with output in construction, estate agency and property rising from 12.6 to 16.2% between 1997 and 2007 (Toynbee & Walker, 2011: 90).

For the above reasons, it has been argued that, "the most striking aspect of structural change under [New] Labour has been the continued decline of manufacturing against a background of rapid growth in the service sector" (Coutts et al. 2007: 849). However, it is important to note that this shift was not just the result of underlying changes in the structural composition of the British economy. Distinctive forms of state-led intervention and politically-driven bouts of labour market restructuring had sustained and guided this process throughout the 1980s and 1990s (Peck, 2001c). Four distinctive features of the labour market regime established under the Thatcher governments can be identified. These are: de-industrialisation and the weakening of trade unions in associated sectors; the passing of restrictive anti-trade union legislation; the increasing 'flexibilisation' of labour market practices; and the emergence of 'welfare-to-work' strategies or 'active labour market policies' (Jessop, 2003a: 11). New Labour's labour market policies represented to a large extent an accommodation with and indeed an extension of this basic neo-liberal framework (Smith & Morton 2006: 402). Two developments were particularly significant in this regard: the on-going flexibilisation of British labour markets and the development of welfare-to-work policies, both of which had the goal of improving the international 'competitiveness' and efficiency of the British economy (Hay 2004: 47).

First, New Labour remained committed to maintaining Britain's position as the most flexible labour market in Europe. Its 1997 manifesto, for example, stated that "key elements of the trade union legislation of the 1980s will stay - on ballots, picketing and industrial action", whilst in 2003 the DTI "reaffirm[ed] its commitment to retain the essential features of the pre-1997 law on industrial action' (The Labour Party 1997; DTI 2003: 67). In relation to the Party's proposed programme of labour market reform, Blair affirmed in the same year that "the changes that we do propose would leave British law the most restrictive on trade unions in the Western world (Panitch & Leys, 2001: 254). Thus, under New Labour's Employment Relations Act (1999), for example, "solidarity action [was] banned, legally permissible industrial action defined very narrowly and balloting procedures required for such action [were] extraordinarily complex and demanding" (Shaw 2007: 131). Labour market flexibility and restrictive labour laws were regularly touted as a key comparative advantage of the British economy by New Labour. For example, a government document boasted that "total wages in the UK are amongst the lowest in Europe...UK law does not oblige employers to provide a written employment contract...[and] the law governing conduct of employment agencies is less restrictive in the UK (Shaw, 2007: 134).

The strategic centrality which the Blair government attached to labour market flexibility can be seen if we briefly consider the character of the employment relations legislation which was introduced in Labour's first and second terms. The term 'flexibilisation' refers to the "capacity of employers to hire and fire employees at will, and to use part-time, temporary and short term contracts to match production to shifting market demands" (Shaw, 2007: 124). Under Thatcher, industrial legislation was radically re-worked to enhance the control of management over the labour process and to reduce the capacity of organised labour to secure inflationary wage increases (Smith & Morton 2006: 402). The result was that "employers had been able to sack union members almost at will" (Fielding, 2003: 166). In its first and second terms, Labour passed landmark legislation - the Employment Relations Acts (1999 and 2004) - which had the ostensible aim of (partially) re-regulating the labour market and expanding the scope of employee rights in the workplace. The legislation "assisted unions in negotiating recognition" and led to "increased paternity and maternity leave, and better compensation for unfair dismissal" (Toynbee & Walker, 2011: 84). This legislation was paralleled by the enactment of other policies - including the Part Time Workers Regulations and Working Times Directives - which were required by EU law and which in principle had the goal of expanding statutory protections to 'atypical' workers and limiting the length of the working week (Smith & Morton, 2006).

However, in practice these labour market policies were strongly diluted when they were implemented by the Blair government. A 'minimalist' approach was adopted so as to ensure that the reforms were compatible with the overriding objective of securing labour market flexibility (Smith & Morton, 2006). For example, the EU's Working Time Directive set an upper-limit of 48 hours on the amount of time a worker could be expected to work in any given week. Since British employees worked substantially longer hours than their European counterparts, this could have been utilised to re-structure the British labour market and to lessen the length of the working week for relatively over-burdened British workers (Shaw 2007: 128). However, under pressure from the CBI, New Labour diluted the legislation substantially, through exempting a range of sectors and occupations and through allowing for an extensive 'opt-out' clause, meaning that employees could choose to waive their right to an upper-limit on working hours (Deakin & Wilkinson 2005: 340). However, "the effect of the opt-out clause has been that many of the lowest paid have been more or less obliged to sign the 'voluntary' declaration as a condition of obtaining work" (Barnard 2003: 247; Shaw 2007: 128). Notably, other European countries did not qualify the legislation to nearly the same extent. As a result, the 'long hours' nature of the British labour market relative to other European economies was not reversed: by 2008 over 3.3 million workers worked over and above the 48 hour maximum established by the WTD (TUC, 2008). This is but one example but it underlines the key point that the overriding objective of labour market reform under New Labour was to ensure that, whilst providing a minimum level of protection 'flexibility' would remain the dominant organising principle of the British labour market. As a Treasury document put it at the time, labour market policy was designed to ensure that employers' retained the power to "adjust total pay, including overtime and bonuses, as well as employment numbers quickly and flexibly in response to changes in market conditions" (HM Treasury 2002: 8). The allocative efficiency of markets and managerial control of the labour process therefore remained guiding principles of New Labour's labour market regime when in government. Second, New Labour consolidated and expanded the 'welfare-to-work' policies which had been tentatively put in place under the previous Conservative governments (Fielding 2003: 198; Peck 2001: 332). Workfare programmes - which "involve the imposition of a range of compulsory programs and mandatory requirements for welfare recipients with a view to enforcing work while residualizing welfare" (Peck 2001: 10) - had initially been piloted under Thatcher with the 1986 'Restart Program'. The Social Security Act 1988 represented a shift to 'harder' workfare and this trajectory was further consolidated under Major with the Jobseekers Allowance (JSA) of 1996, under which "eligibility for benefits was narrowed and means testing expanded" (Jessop 2003b: 11; Peck 2001: 282). In light of strong public support for the JSA - polling suggested that two-thirds of the electorate supported it - the Labour leadership pledged to retain the framework in spite of opposition from within the Shadow Cabinet (Peck 2001: 291). In addition to accepting the JSA, when New Labour came to power it set about developing its own extensive welfare-to-work programme through Brown's flagship 'New Deal' policy. This programme - funded out of an (electorally palatable) £3.6 billion 'windfall tax' on the private utilities - was designed to incentivise re-entry into the labour market for welfare recipients (Ludlam 2000; Gamble & Kelly 2001: 176). Under the New Deal, after six months of unemployment individuals would be required to sign-up to a programme which would offer them employability support. After four months, if subsidised work was still not forthcoming, individuals could choose between entering a voluntary programme, or entering into an education or training programme (McAnulla 2006: 127). Importantly, there would be 'no fifth option': if claimants refused to adopt any of the options, they could lose their benefit for between two to four weeks (Fielding 2003: 198).

The New Deal has been described as a 'typical neo-liberal programme... designed to eliminate welfare dependency" (Jessop 2003b: 13; Kelly 2011: 113). 'Welfare-to-work' policies redefine unemployment as a supply-side phenomenon relating to the 'job-readiness' and 'employability' of individuals rather than as a structural feature of the market economy which can in principle be responded to through demand management. In this sense, New Labour's 'welfare-to-work' programmes represented a continuation of the Thatcherite approach to labour markets. However, New Labour's approach was different in the sense that it sought to institute and deploy a more heavily centralised, more comprehensive "dirigiste workfare state" (Marquand, 1998) - overseen by an empowered Treasury under Brown - which would actively seek to instil a work ethic in the citizenry and re-integrate the young and long-term unemployed into the labour market (Watson 2013: 11). As one government document put it, "our ambition is nothing less than a change of culture among benefit claimants" (Deacon 2002: 106). The failures of Thatcherite market liberalisation - the creation of regional pockets of long-term unemployment and the creation of a 'surplus' population lacking basic skills - would be corrected through sustained political intervention. In this sense, New Labour's programme represented an example of 'roll out' neoliberalisation *par excellence.* Markets - including labour markets - are not just 'given' or naturally occurring entities: they must be actively instituted through sustained political intervention and through successive rounds of welfare reform.

Importantly, as well as seeking to institute new patterns of behaviour amongst the new long-term unemployed, welfare-to-work policies were informed by a second logic which sought to directly constrain real wage growth across the economy. As Mandelson and Liddle, two key New Labour strategists put it:

> "By focusing on those presently excluded from the labour market, the government can help to tip the balance in favour of the labour-market outsiders against the insiders and *thereby increase the general pressure for responsibility in pay levels*".
>
> (Mandelson & Liddle 1996: 101[emphasis added])

Glyn and Wood have summarised this aspect of New Labour's logic as follows: since "the long-term unemployed in particular exert little downward pressure on wage bargaining as they are semi-detached from the labour market...if they can be cajoled or enticed back into searching for work... then the extra competition they inject into the labour market will bring downward pressure on wages" (Glyn & Wood 2001: 52). In this way, New Labour's welfare-to-work policies were designed not only to reduce levels of state expenditure on unemployment benefit; they also sought to consolidate the international competitiveness of the economy through undermining workers' capacity to secure potentially inflationary wage settlements (particularly in 'low pay' sectors). Again, the deployment of state power under New Labour's welfare-to-work policies was utilised not to counteract 'market forces' but rather to re-inforce them. The Conservative's implementation of 'active' labour market policies of this nature had only been partial. Under Blair, however, "Britain's truncated workfare debate began to exhibit the features of a comprehensive and internally coherent programme of transformative action ... piecemeal experimentation with workfare under the Conservatives led to a fully-fledged adoption of workfare principles by the New Labour government (Peck 2001: 332). Rather than 'rolling-back' the labour market regime which it had inherited, New Labour extended it in line with the objective of securing wage constraint, reductions in the welfare bill and increases in international competitiveness.

The City of London

The City of London has long occupied a position of crucial importance in the British economy as a commercial 'entrepot' for international creditor institutions, insurance firms and commercial activity (Ingham 1984). However, from the late 1980s onwards, the position of the City as an international financial hub and as a key strategic sector in the British economy grew further still in importance. The high interest regime of the early 1980s combined with an increasingly lax regulatory system to attract huge in-flows of international capital (Jessop et al. 1988: 171; Krippner 2011). As Britain's manufacturing capacity rapidly contracted and Sterling appreciated, the British economy recorded its first trade deficit in visibles in 1983. As a result, the British economy became increasingly reliant on the City to attract foreign direct investment and to contribute to the balance of payments through the export of financial services (Coates 2013: 43). In 1986, the so-called 'Big Bang' - which involved a rapid deregulation of financial markets in Britain - secured the position of the City as a key international financial centre within the global political economy.

New Labour's approach to the City of London again followed the basic strategy that had been employed under the Thatcher and Major governments (Gamble 2010a: 648). First, New Labour's macroeconomic policy, as outlined above, was explicitly premised on securing a regime of 'sound money'. Tight restrictions on public spending in Labour's first term and the granting of operational independence to the Bank of England underlined the privileged position of international creditor institutions relative to industrial capital (Coates & Hay, 2001). Second, whereas previous Labour governments had attempted to reign-in the power of the Treasury to foster industrial development, under Brown the Treasury was hugely empowered. This meant that "rather than challenge the 'City-Bank-Treasury' nexus, New Labour…sought to work with and reassure it" (McAnulla 2006: 123). Third, New Labour further consolidated Britain's regime of low corporate taxation and limited regulation in order to secure the City's competitiveness relative to other international financial centres (Baker, 2010). For example, the Financial Services Authority – created in 2001 - had the explicit remit of promoting the financial sector's competitiveness through a regime of 'light touch' regulation. The FSA identified its 'hands-off' approach to regulation as a key guiding principle in the pre-crisis period. When in 2005 Blair expressed concern about the City potentially losing its competitive advantage through new regulations, "FSA Chairman Callum McCarthy was happy to reassure him 'that the FSA applied to the supervision of its largest banks only a fraction of the resource applied by US regulators to banks of equivalent size and importance'" (Shaw 2012: 233). The 'light touch' approach of the FSA complemented New Labour's general approach to the City which was to nurture and protect its status as a premiere financial centre. As one government spokesman put it, "we won't do anything that harms the City of London" (Shaw 2007: 55). As such, it is fair to conclude that the Blair government was "in thrall to the City… [it was] the object of both fear and veneration – the veritable Golden Calf of New Labour (Andersson et al. 2011: 123).

New Labour therefore displayed a 'double dependence' on the City of London (Smith, 2014). On the one hand, committed as it was to the 'fiscal rules', Brown's Treasury relied on cheap credit from the City to help fuel modest increases in borrowing (ibid). On the other hand, financial services grew in importance as a key strategic sector under New Labour, underpinning Britain's financialised growth model and contributing substantially to Treasury revenues throughout the pre-crisis conjuncture. Over the New Labour period, "finance's share of GDP in the UK economy rose from 5.3% in 2001 to 9.1% on the eve of the recession. Finance generated foreign earnings and contributed 35% of all corporation tax in 2001… then there was housing stamp duty, inheritance and capital gains tax…in 2002-3 these receipts were together equivalent to 3% of GDP. By 2007-8 this had risen to 4.25%, and that growth accounted for half the increase in total receipts over these years (Toynbee & Walker 2010). Financial exports continued to grow in systemic importance under New Labour: the City's trade surplus rose from £8.7 billion to £25.1 billion between 1996 and 2006 (Shaw 2012: 231). As a result of the rapidly growing size of the financial services sector, by the end of the New Labour period the UK had the highest private debt as a proportion of GDP of the G7 economies (Thompson 2014: 477). In addition, as we saw in the previous chapter, the financial services sector also played a crucial systemic role in sustaining Britain's 'Anglo-liberal' model of capitalism (Hay 2013). Low commercial interest rates and increased lending helped to fuel rapid growth in the housing market and consumption in the pre-crisis conjuncture, with two thirds of bank lending being channelled into commercial and residential property (Lansley 2011).

New Labour and neoliberalism: The logic of (in)discipline

The above section has offered a critical review of a range of economic policy areas under New Labour. However, as argued in Chapter One, political economy analysis should go beyond analysing distinct policy areas as separate domains of analysis. Rather, it should aim to examine the ways in which distinct spheres of social activity come to be embedded within, conditioned by and can in turn contribute to the emergence of broader patterns of capitalist development (Clift 2014: 5). Can we therefore identify a common underlying logic which underpinned New Labour's political economy throughout the pre-crisis conjuncture?

If there is one characteristic which unifies New Labour's macroeconomic, labour market and welfare policies it is that these were organised around what has been termed elsewhere a 'logic of discipline' (Roberts, 2011). This 'logic of discipline' pertains to both the economic and political domains. In economic terms, the logic of discipline involves the extension of the price mechanism into a diverse range of social spheres and "the establishment of market relations where hitherto there were none" (Streeck 2012: 6). This extension of market discipline involves subjecting areas of social life which were previously insulated from market pressures to the private investment decisions of capital. For example, the proliferation of 'conditionality' in welfare provision ensures that citizens can no longer rely on the 'de-commodified' provision of basic welfare entitlements but must instead actively integrate themselves into the labour market, irrespective of the kind of work on offer and on terms largely determined primarily by employers. In political terms, the 'logic of discipline' refers to the process whereby the institutional architecture of the state is reconfigured in ways which insulate economic policymaking "from popular interference or from the vagaries of political judgement" (Roberts 2011: 13). For example, central bank independence places a key tool of macroeconomic policy - the setting of interest rates - in the hands of unelected technocrats. In this way, potentially difficult decisions - such as tightening monetary policy in order to contain inflationary pressures - can be taken by an authority which is only very indirectly subject to democratic control. As such, New Labour's political economy has been widely interpreted as involving an extension of this depoliticising 'logic of discipline' over society (Burnham, 2001; Flinders & Buller, 2006a; Hay, 2014a). However, what has been overlooked in this literature is that New Labour's political economy simultaneously rested upon a distinctive and sustained logic of *in*discipline, concentrated in particular in credit and capital markets. The argument in this section is that New Labour's finance-led accumulation strategy effectively *combined* these logics of discipline and indiscipline which in turn contributed to the emergence of the 'privatised Keynesian' growth model which predominated throughout the pre-crisis conjuncture (Crouch, 2009).

The link between New Labour's macroeconomic policy and the 'logic of discipline' has been analysed by Burnham in a series of seminal contributions (Burnham, 1999, 2001, 2006). Burnham argues that New Labour's economic policy was informed by a specific form of statecraft which sought to 'depoliticise' questions of economic management.[63] Through granting independence to the Bank of England and by developing tight fiscal rules, the Treasury ostensibly 'tied its hands' in relation to the levers of macroeconomic policy. As we have seen, this was done to secure 'credibility' with international creditors and to re-inforce the perception that New Labour would be a 'competent' economic manager in the eyes of the electorate. The crucial point, however, is that this 'depoliticised' approach to economic governance – "the process of placing at one remove the political character of decision making" – only *apparently* disempowers policymakers (Burnham 2001). In practice it actually enhances the power of state officials to manage the accumulation process. This is because it allows them to pursue deflationary policies whilst at the same time allowing them to deflect blame for the negative outcomes of these policies elsewhere (Bonefeld & Burnham, 1996). For example, politicians can blame central banks for overly-hawkish monetary policy or can emphasise the non-negotiable character of 'fiscal rules' so as to resist demands for higher public spending. As we saw in the previous sections, such

[63] For Burnham, who employs an 'Open Marxist' framework, all capitalist societies rely fundamentally on capital's capacity to extract a surplus from labour. This makes capitalist reproduction - the production, circulation and reproduction of 'surplus value' - an inherently conflictual and unstable process. The state on this reading is not relatively autonomous or 'independent' from the class struggle – rather, it is an expression of that struggle and a 'moment' within the wider circulation process. In Burnham's phrase the state is a 'circuit manager' (Burnham 2010): if accumulation is to take place at all, the state must intervene to re-assert the 'law of value' through, for example, protecting the value of money or by imposing "austerity on social relations" (Burnham 2011: 497). However, this process is fraught with political danger. The direct imposition of austerity or the pursuit of economic policies which ostensibly seek to subjugate labour to capital can lead to a crisis of legitimacy for the state. As such, state managers must perpetually seek to find ways to discipline labour without provoking a political crisis.

considerations did inform the approach to management adopted by both Brown and Balls in opposition and in government.

However, New Labour's attempt to 'depoliticise' economic policy went beyond such 'institutional' or 'rules-based' forms of depoliticisation (Flinders & Buller 2006: 217). As Hay and his collaborators have argued, New Labour also sought to depoliticise its economic policy by discursively constructing 'globalisation' as a process which placed non-negotiable constraints on state managers' policymaking autonomy (Hay & Rosamond, 2002; Watson & Hay, 2003). By consistently promoting the view that globalisation had created a situation where capital flight was a persistent threat, New Labour sought to justify a range of regressive policies – for example securing cuts to corporation tax or driving through labour market flexibilisation – which otherwise might have been difficult to implement (Hay & Smith, 2005). There were, however, profound contradictions at the heart of this narrative. Whilst the Blair government emphasised the 'non-negotiable' constraints of globalisation, it was at the same time pushing for the further liberalisation of financial markets and trade through various different international fora (Coates and Hay 2001). Thus, what was presented as a non-negotiable 'exogenous constraint' was at the same time being actively promoted by the New Labour government.

Through these forms of institutional, rules-based and discursive depoliticisation, New Labour sought to secure its governing 'credibility' and to enhance the competitiveness of the British economy (Hay, 2004b). This attempt to reconfigure the British state and economy in line with a distinctive 'logic of discipline' is evident across the macroeconomic, labour market and welfare policies which were reviewed in the previous section. However, what has not been acknowledged in the literature[64] - but what became increasingly evident in the aftermath of the 2008 financial crisis –

was that New Labour's success in generating (modest) economic growth throughout the pre-crisis conjuncture rested upon an alternative, submerged pattern of economic development: a dynamic of sustained and widespread *in*discipline in credit markets. This logic of indiscipline can be seen in the patterns of lending to households and in the expansion of bank balance sheets.[65] For example, as we saw previously, in the residential property market loan-to-earnings ratios increased from 3.14 in 1998 to 5.86 in 2007 (Chamberlin 2009: 31). As a result, the provision of mortgage credit increased substantially throughout this period, to the extent that between 1997 and 2007 a record £1.2 trillion of new mortgage loans were made (Martin 2010: 41). In a context of low interest rates and appreciating property prices, households and firms were encouraged to increase their leverage ratios and their exposure to private debt substantially. At the same time, bank balance sheets tripled in size between 2002 and 2007 (Smith 2013: 66). In both cases, New Labour did little to constrain this expansion of credit principally because the leadership subscribed to the view that financial markets effectively distribute and accurately price risk (Engelen et al. 2011: 316). As such, rapid credit expansion was regarded as essentially benign by policymakers and by regulators (Hindmoor & McConnell, 2013). However, as argued in Chapter Two, these dynamics in fact consolidated a series of structural imbalances and encouraged patterns of pro-cyclical lending which undermined the stability of British capitalism throughout the pre-crisis conjuncture.

This logic of indiscipline was directly related to the broader logic of macroeconomic and labour market discipline which prevailed under the New Labour governments. As we have seen, the adherence to tight fiscal rules and 'sound money' produced a persistently high exchange rate under New Labour. As well as further undermining the competitiveness of Britain's industrial base, the over-valuation of Sterling relative to other currencies encouraged rapid in-flows of capital into Britain in

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[65] See Chapter Two for a more detailed exposition.

the pre-crisis period (Saull, 2012). This glut of credit – in a context of historically low interest rates – encouraged fierce competition between creditor institutions which in turn drove commercial interest rates down to historic lows (Stockhammer, 2014: 18). Thus, the fiscal 'discipline' secured by Brown's 'prudence' actually formed a crucial precondition of the destabilising financialisation of the British economy which intensified throughout the pre-crisis conjuncture.[66] Similarly, central bank policy was, as we have seen, oriented towards restraining inflationary pressures which had a direct impact in constraining real wage growth. However as we saw in Chapter Two, real wage constraint was one of the key drivers behind growing personal indebtedness, as workers sought to sustain their incomes through taking out debt in a context of low interest rates (see also: Montgomerie, 2007b). Again, the 'discipline' secured through New Labour's flexible labour market regime coupled with increasingly deregulated credit markets acted as a key driver of credit indiscipline and financialisation in the pre-crisis conjuncture (Stockhammer, 2016). New Labour's accumulation strategy was therefore generative of an emergent model of economic development which effectively combined patterns of discipline and indiscipline throughout the pre-crisis conjuncture. The underlying difficulties of the British economy, on this understanding, were not resolved as a result of Gordon Brown's 'prudential' macroeconomic framework. Rather, they were temporarily displaced into the future, as growth became dependent on the continued expansion of private debt, asset price inflation and collective bouts of sustained credit indiscipline (see also: Streeck, 2014a).

This characterisation of New Labour's political economy can help us to capture the ways in which the neoliberalisation of the British economy was advanced in the pre-crisis conjuncture. As was outlined previously, Jessop's typology of

[66] Counterfactually, we could argue that had a more accommodative exchange rate regime been implemented this may well have acted as a disincentive to capital in-flows. This, of course, would have produced new strategic dilemmas for the government – but the basic point that fiscal and monetary 'discipline' is related to the growth of credit indiscipline still stands. For a further examination of this basic insight see (Krippner 2011).

'neoliberalisation' tendencies provides us with a useful framework in this regard. To re-cap, the six ideal-typical forms of neoliberalisation identified by Jessop include liberalisation, deregulation, re-commodification, privatisation, internationalisation, and attempts to reduce direct taxes. Judged against the above review of New Labour's economic policies, we can conclude that New Labour did indeed contribute to the ongoing neoliberalisation of the British economy throughout the pre-crisis conjuncture. Importantly, however, these distinct policy orientations collectively contributed to the emergence of a broader regime or model of economic development which combined fiscal and labour market discipline with a submerged but systemically crucial logic of credit indiscipline. Four brief examples serve to illustrate this point.

First, in terms of *liberalisation and deregulation*, the FSA's avowedly 'light touch' approach to regulating the City of London was of key significance. However, 'light touch' regulation was a crucial pre-condition of growing indiscipline in British credit markets and the emergence of 'privatised Keynesianism' as we saw in Chapter Two. In addition, it is worth noting that New Labour did not only seek to further liberalise its own domestic policy space. It also enthusiastically promoted liberalisation and deregulation abroad. For example, it was a "key player in establishing a new agreement which committed the EU to a ten-year economic liberalisation programme…[and was] critical of other social democratic parties in Europe for maintaining … [an] emphasis on workers' rights" (McAnnula 2006: 131). New Labour therefore utilised the apparatus of the British state to promote and 'roll out' a distinctive finance-led accumulation strategy both domestically and internationally (Davis & Walsh, 2015; Macartney, 2009).

In terms of *re-commodification* - the process of extending the price mechanism into a variety of different 'extra-economic' spheres – this was most clearly evident in Labour's welfare-to-work policies which, as we have seen, sought to channel the workless into (often low paid sections of) the labour market through increasingly disciplinary methods (Watson, 2010). The relative merits or problems associated with such workfare policies need not concern us here. The crucial point is that "the dismantling of those aspects of the welfare state that shelter workers from market pressures, forcing them to accepts jobs on employers' terms" continued apace under New Labour (Shaw 2007: 146). This process of channelling labour market 'outsiders' into work represents an example of 'roll out' neoliberalisation *par excellence*, as state power is deployed to re-establish market discipline over de-commodified areas of social life (Peck, 2010).

Third, in terms of *internationalisation* we have seen that New Labour's finance-led growth model and 'sound money' regime encouraged the recycling of global surpluses through the City of London. New Labour also presided over an increase in FDI flows and increasing foreign ownership of the British economy. Perhaps more than anything, New Labour was committed discursively to the view that globalisation resulted in an irresistible logic which strongly constrained the policymaking autonomy of domestic elites. In these respects, we can conclude that New Labour's pursuit of 'openness' to international finance and FDI flows created a context within which easy access to credit for both households and firms could be enhanced substantially. New Labour's attempts to entice foreign capital into the UK therefore played a dual role with respect to the Party's accumulation strategy: on the one hand, it was used to justify regressive social and labour market policies; on the other hand it formed the basis for the regime of sustained credit indiscipline which would act as a key driver of Britain's pre-crisis growth model.

4.4 New Labour and social democracy

So far the analysis has focussed on those features of New Labour's political economy which suggest that the Blair and Brown governments were essentially 'neoliberal' in orientation. However, as was acknowledged previously, a number of scholars would reject this characterisation. In line with those who originally advanced the 'modernisation' thesis, an alternative body of literature argues that despite its reformed policy platform, the core of the New Labour programme remained essentially social democratic in orientation (Driver & Martell 2006: 3). Two policy areas are generally identified to make this argument: New Labour's record on public spending (particularly after the Comprehensive Spending Review of 2000) and the mixture of redistributive social policies which New Labour advanced throughout the pre-crisis conjuncture. These arguments are surveyed below before an alternative interpretation of New Labour's political economy is advanced in the following section which goes beyond the 'neoliberal' versus 'social democratic' dualism which characterises the existing literature.

Public spending increases

As outlined above, a key element of New Labour's electoral strategy in the run-up to the 1997 general election was to commit to Conservative spending plans for its first two years in government. From 1997 – 1999, Brown doggedly pursued this strategy: public spending fell from 41% of GDP in 1997 to 37.7% in 2000 (Driver & Martell 2006: 75). This period represented what has been termed the 'safety first' or 'reassurance' phase of the New Labour project (Hindmoor 2004a: 106). What Brown was trying to do in this period was to reverse the pattern which had traditionally crippled Labour governments. Rather than splurging on public spending early-on and then having to enact deflationary policies in response to market pressures, Brown sought to gain 'credibility' with the financial markets first so that he could subsequently increase public spending without being penalised by international creditors. As such, the first two years of fiscal constraint – combined with steady economic growth, increased tax revenues and falling social security payments due to declining unemployment - boosted Treasury revenues such that by 2000 Britain was recording a budget surplus of £20 billion (Driver & Martell 2006: 75).

Starting from plans first announced in 1999, however, Labour began to shift its approach to public spending (Gamble, 2010a: 649). The Comprehensive Spending Review (2000) put government spending firmly back on the public agenda, committing the government to increase expenditure by £68 billion over the next three years (Driver & Martell 2006). This recalibrated positon was confirmed in the 2000 Budget, when Brown promised to enact a “net doubling of public investment as a percentage of GDP by 2004 – from 0.9% in to 1.8% (Coates 2005: 65). This translated into what one commentator referred to an increase of 25% in departmental spending over the following four year period (Coates 2005: 65). The 2000 CSR represented a deliberate shift in Labour’s strategic orientation in the run-up to the 2001 general election. Rather than resisting public spending increases, New Labour now presented itself as the Party best-placed to boost public sector investment and to correct years of neglect under the Conservatives (Fielding 2003: 213). For example, in his November pre-Budget report Brown stated that “the public sector had suffered from decades of under-investment” (Fielding 2003: 215). Only increased public expenditure (working alongside public sector ‘reform’) could remedy the situation. As such, “by the time of the 2001 general election, the Conservatives had committed themselves to significant tax cuts and New Labour reinvented itself as the party of higher public expenditure” (Hindmoor 2004a: 152). The issue of public spending became one of the crucial issues of the election campaign, characterised by Labour as a choice between public sector ‘investment’ under Blair or cuts to public services under Iain Duncan Smith and the Tories (Geddes & Tonge 2002: 7).

The electorate opted for the former. Labour won another landslide in the 2001 election and proceeded apace with its programme of expanding public expenditure.

The transition from the ‘safety first’ approach of the first two years of the New Labour government to a phase of increased public spending on services was now in full swing. Over this period, public expenditure increases were substantial. The majority of the spending increases were concentrated across three departments: health, education and transport. From April 1997 – March 2008, spending on the NHS went up by 6.3% and spending on education increased by 4.3% year-on-year in real terms (Smith 2014: 605). If we exclude the initial phase of fiscal constraint, the size of the expansion in spending on public services is even greater: between 2000 and 2005 the party increased spending by 8.1% per year on the NHS and 6.1% per year on education (Tomlinson 2012c: 210). This meant that “by 2008 the resources available to the NHS had more than doubled and as a percentage of GDP [had risen] from 6% to over 9%.” (Gamble 2010a: 649).

These increases in public expenditure clearly differentiated the New Labour government from the Conservative administrations which had preceded it. For example, under Thatcher and Major, annualised spending increases on the NHS had been 3.2% whereas education had seen an annualised average increase of 1.5%. The average total increase in public expenditure in New Labour’s second term was 4.5% per year; this compared to an average of 1.2% under Thatcher and 2.6% under Major. As Tomlinson highlights, New Labour’s record on public expenditure did not only compare favourably relative to previous Conservative governments: rather, throughout the 2000s Labour’s increased investment in public services was “the largest expansion of public spending of any peacetime government” including past ‘Old’ Labour governments (Tomlinson 2012: 210).

New Labour’s record in securing these large increases in public expenditure was hugely significant. Indeed, it suggests that some of the early interpretations of New Labour as representing a simple ‘accommodation’ with Thatcherism were premature.

For example, in Heffernan's early characterisation of the Party, he wrote that "Labour now accepts that traditional social democracy is a thing of the past, acknowledging its replacement by a new orthodoxy informed by neoliberalism where… *an expanded public sector [is] an impossible fantasy*" (Heffernan 2000: 20).[67] Labour's record in its second term suggests that such accounts over-stated the fiscal conservatism of New Labour and underplayed the extent to which its approach to public spending would differentiate Labour from the Conservatives. As we shall see in the final section, this expansion in public spending has important implications for the way we should interpret New Labour's political economy.

Redistributive social policies

As well as highlighting the large increase in spending on public services in New Labour's second and third terms, those who argue that New Labour was essentially social democratic in orientation also typically highlight the range of 'redistributive' social policies which the Party pursued in government (Smith 2014: 601; Shaw 2007; Gamble 2010a). A wide range of policies are typically identified in this regard, including the implementation of the minimum wage, increases in child benefit, attempts to indirectly redistribute tax revenues to the working poor, the growth of Sure Start centres, and the growth of child, working family and pensioner tax credits (Chadwick & Heffernan 2003: 17; Hindmoor 2004b: 202). These policies are commonly identified as embodying traditional social democratic commitments to redistribution and poverty alleviation. For example, as Gamble and Kelly have written, "far from turning its back on redistribution it could be argued that New Labour has sought to redistribute incrementally by every means possible except direct taxation. It is redistributing through tax credits, changing expenditure priorities, and shifts in the National Insurance system. It is, however a very particular type of redistribution,

[67] Emphasis added.

because it has targeted specific groups: those with children, low-income pensioners and the working poor" (Gamble & Kelly, 2001).

The full array of New Labour's redistributive social policies need not concern us here. However, it is worthwhile to outline one policy area which is typically identified by those who advance the argument that New Labour was 'social democratic' in orientation: the issue of child poverty. In 1999, Blair announced that the Party would aim to 'eradicate' child poverty by 2020. Brown announced at the Labour Party conference in 2008 that the Party would formally enshrine this objective into law, a commitment which was realised in 2010 with the passing of the Child Poverty Act (2010) (Kennedy, 2010). Crucially, New Labour's commitment was to reduce *relative* child poverty, where poverty was defined as those children dwelling in a household with an income of less than 60 per cent of the national median (Shaw 2007: 49). In other words, the policy sought to do more than just secure a basic 'floor' for child living standards. Instead, the commitment was made to ensure that the poorest household incomes rose in line with the national average. In light of this basic commitment to equity, many have argued that New Labour's child poverty alleviation strategy embodied a classic redistributivist social democratic programme (ibid.).

A number of specific policies were oriented towards meeting the child poverty reduction targets, including maternity grants, child tax credits and working families' tax credits[68]. These programmes aimed to incentivise work by ensuring that being in employment would always pay more than remaining on the unemployment register. For example, the WFTC aimed to guarantee a minimum income of £225 a week in 2001 for all in-work households (Coates 2005: 78). However, as well as incentivising work, Brown's programme of tax credits played a particularly important role in targeting child poverty (Shaw, 2007: 50). For example, WFTC and childcare tax credit together

[68] Since 2003, 'Working Tax Credit'.

substantially increased the incomes low wage families, with the latter tax credit meeting up to 70 per cent of childcare costs for working families on low wages (Fielding, 2003: 188; Sefton et al., 2009: 43). These interventions strongly differentiated the New Labour government from their Conservative predecessors. As Hills and his collaborators have noted, “we estimate that overall poverty in 2008-09 would have been up to six percentage points higher and child poverty in 2008-09 would have been up to 13 percentage points higher under a continuation of the previous government’s tax benefit policies” (Sefton et al. 2009: 44)

New Labour’s child poverty reduction strategy enjoyed a considerable degree of success. Throughout the pre-crisis conjuncture, Britain experienced the largest drop in child poverty in decades and experienced the largest decline in child poverty within the EU member states (Toynbee & Walker 2011: 211). The array of tax credits which were targeted at low income households with children meant that the incomes of some low-wage families nearly doubled (Fielding 2003: 188). By 2010 considerable progress had been made on relative child poverty reduction; whilst 3.4 million children had this status in 1998/99, by 2010 the figure had dropped to 2.3 million (DWP, 2010b).[69] Those who characterise New Labour as essentially social democratic typically point to such evidence in their arguments. For example, Shaw writes that, “if the performance of the Blair Government is compared with the performance of previous Labour governments in the 1960s and 1970s – and not their rhetoric – then there is a strong argument to be made that it enjoyed greater success in implementing the key social democratic value of poverty relief” (Shaw 2007: 53).

4.5 New Labour’s ‘hybrid’ political economy

[69] Although it should be noted that despite this drop in child poverty, New Labour missed its own 2010 target by 600,000 (DWP, 2010b).

Two dominant interpretations of New Labour's political economy have been critically evaluated so far in this chapter. On the one hand, one body of literature argued that New Labour's economic and social programme was essentially 'neoliberal' in orientation and represented a basic continuity with Thatcherism (Hall, 2005; Hay, 2002c; Watkins, 2003). The above review of New Labour's macroeconomic, labour market, welfare and financial regulation policies suggests there is considerable evidence to confirm this view. On the other hand, a second body of literature argued that the core of the New Labour programme was 'social democratic' insofar as it sought to couple expanded public spending, mild redistribution and poverty alleviation with a dynamic market economy (Gamble, 2010a; Shaw, 2007; Smith, 2014). The evidence suggests that there is considerable merit in this interpretation as well; in its second and third terms New Labour implemented very large increases in spending on public services and enacted an array of social policies which generated a (limited) degree of redistribution to low income households.

However, this binary framing of New Labour's political economy as either 'neoliberal' or 'social democratic' is in fact highly limited. Both characterisations fail to adequately conceive of the way in which New Labour's political economy embodied a *hybrid* regime of development which combined distinct patterns of state intervention oriented to achieving distinct social and economic objectives. In this regard it is instructive to return to some of the theoretical considerations which were advanced in Chapter Three. In Chapter Three, it was argued that neo-Marxist state theory provides us with a range of concepts which can help us to understand the ways in which advanced capitalist states are typically oriented towards securing a range of divergent social objectives. In particular, it was argued that a useful distinction can be drawn between the accumulation strategies deployed by state managers on the one hand and the legitimation strategies or 'hegemonic projects' which they typically advance to build-up a broad base of support on the other (Jessop 1990: 216). Introducing this analytical distinction can help us to move beyond the crude 'neoliberal/ social democratic' dualism which dominates the existing literature on New Labour.

As outlined previously, an accumulation strategy refers to those forms of state intervention which are oriented towards privileging certain economic sectors, developmental logics and economic subjectivities over others. Characterisations of New Labour as 'neoliberal' tend to emphasise the government's accumulation strategy whilst ignoring the ways in which the government simultaneously sought to reconcile this strategy with continued support from the social base. The literature tends to focus on the ways in which New Labour's social and economic policies were driven by an attempt to secure 'credibility' with international creditor institutions and the business community more broadly (Ryner, 2010). For example, the ceding of operational independence to the Bank of England, the enshrinement of tight fiscal rules and the ongoing deregulation of financial markets are regularly cited as evidence of New Labour's 'neoliberal' character. However, whilst these characterisations of New Labour do correctly identify one dimension of government policy in this period, they tend to understate the ways in which government policy was also oriented towards securing a range of other social and political objectives. For example, whilst these characterisations do at times acknowledge that New Labour increased public expenditure and pursued (limited) forms of redistribution, they also tend to view these trends as 'noise' around a more basic neoliberalising dynamic (Hay, 2013a: 12). This - it is submitted here - is a mistake. Downplaying the significance of New Labour's programme of enhanced public expenditure and (limited) patterns of redistribution compromises the capacity of such accounts to explain the *stability* of British capitalism throughout the pre-crisis conjuncture. It also limits the capacity of such accounts to adequately conceptualise how Britain's political economy was restructured subsequently in the post-crisis conjuncture. In order to better conceptualise these trends, then, it is instructive to acknowledge that New Labour's finance-led accumulation strategy operated alongside a qualitatively distinct legitimation strategy or 'hegemonic project'. New Labour did not only deploy state power in order to extend its preferred finance-led accumulation strategy. Rather, through expanding public expenditure and through implementing (limited) forms of redistribution, New Labour sought to secure and build upon its popular base of support in society. It did this through channelling material concessions to social groups which might otherwise have been excluded from the dominant finance-led growth model (Jessop 2003).

In Chapter Three, a hegemonic project was defined as a relatively coherent governing programme which seeks to secure support for a specific model of social, economic and political development within a particular society. Actors within the state typically play a crucial role in advancing such programmes. It was argued that three forms of state intervention can be identified which are generally constitutive of such legitimation strategies. These include the ways in which state managers seek to secure popular support through pursuing distinctive governing strategies, through shaping distributional outcomes and through strategically deploying ideas.

In the case of New Labour we can identify a number of trends which suggest that the Party pursued a distinctive legitimation strategy or hegemonic project throughout the pre-crisis conjuncture. It is here where the arguments of those who characterise New Labour as 'social democratic' in orientation are important. The shift in New Labour's approach to public spending in the lead-up to the 2001 general election campaign is of considerable significance in this regard. As Keegan has written, "the fact of the matter was that by the time the first Blair government faced the electorate in May 2001 very little of the 'purpose' of the 2000 budget and Spending Review had become apparent on the ground" (Keegan 2003: 291). The tight fiscal constraint of Labour's first two years had further depleted the public services such that between 1997 and 2001, "public sector net investment as a proportion of GDP was lower by far than in any previous four-year period since the cutbacks began with the Callaghan government of 1976-9" (ibid: 282). The danger was that Brown's 'safety first' approach to public spending in New Labour's first term would undermine its electoral support and frustrate the Party's chances of winning a second election. With this in mind, New Labour developed its approach to expanding public spending in order to secure its position as the dominant force in British politics. Three strategic considerations informed this re-calibration of policy. First, as early as 2001, there was a growing awareness amongst New Labour strategists that support for the project was rapidly declining in its traditional 'heartland' constituencies. As Philip Gould put it, there was a serious danger that amongst its electoral base the New Labour 'brand' had been contaminated (Fielding 2003: 106). Conscious of haemorrhaging large chunks of its core support in working class communities and with public sector workers, the Labour Party began to change its position (Shaw 2007: 197). Second, internal party pressures added to the clamour for increased public spending. Key sections of the Parliamentary Labour Party – no doubt with a nervous eye on their own seats – were becoming increasingly impatient with the lack of progress in increasing public spending throughout Labour's first term (Keegan 2003: 291).[70] Third – and perhaps most importantly – there was a growing recognition that voters in key marginal constituencies were also seeking to see improvements in public services and enhanced investment in infrastructure. Indeed, 73% of the electorate cited the desire for improved healthcare and 62% improved education as a crucial factor in how they would vote in the 2001 election. As such, the Labour Manifesto for 2001 had one major theme – "Public Services: Investment and Reform" (Keegan 2003: 296; Geddes & Tonge 2002: 7).

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[70] This growing impatience was symbolised by Peter Kilfoyle's resignation from the cabinet in 2000, when he cited disillusionment with the leadership's failure to adequately support Labour's heartland constituencies as a key motivation for his departure (Hall 2005).

New Labour therefore pursued a distinctive governing strategy in its second and third terms which sought to *extend* the scope of the state in the name of securing broad-based electoral support and internal party cohesion. Crucially, the pursuit of electoral dominance led the Party to engage in patterns of state intervention which were not reducible to the 'requirements' of the dominant finance-led growth model. Rather, New Labour's programme of enhanced public spending was driven by an alternative, underlying objective: that of securing governing legitimacy and of expanding its base of support within society.

The pursuit of this legitimation strategy had important distributional implications throughout the pre-crisis conjuncture. In particular, large increases in spending on public services effectively redirected resources to regions and sections of the population which might otherwise have been excluded from the surplus generated by the dominant finance-led growth dynamic. This is reflected in the changing composition of the UK's labour market throughout the pre-crisis conjuncture. For example, public sector employment increased markedly - by over 700,000 - under New Labour (Cribb et al., 2014: 7). At the same time, 57 per cent of net job creation was concentrated in sectors which were in large part or wholly dependent upon public funding in some way (Buchanan et al., 2009: 16). This form of 'para-state' work became increasingly important in the ex-industrial regions, where private sector job creation was particularly weak (Tomlinson, 2012b, 2012c). For example, in the North East of England, 73.1 per cent of net job creation was in the state or para-state sector, whilst in the West Midlands the figure was 179 per cent as autonomous private sector job creation effectively contracted (Ertürk et al., 2011: 11). Britain's pre-crisis growth model was not therefore simply sustained in line with a market liberal 'disposition' on the part of policymakers (Hay 2013a: 73). Rather, it was simultaneously stabilised through an increase of state intervention in ex-industrial labour markets and in the emergence of state-led ‘flanking mechanisms’ within the ex-industrial regions.[71] Crucially, these stabilising mechanisms did not emerge due to the ‘reproduction requirements’ of the dominant growth model. Nor were they the result of a conscious ‘accumulation strategy’ pursued by policymakers. Rather, they were the product New Labour’s attempt to secure broad-based support through the pursuit of a distinctive legitimation strategy. This legitimation strategy can be usefully characterised as embodying a ‘One Nation’ hegemonic project (Jessop, 2007a). Such projects seek to build a base of support by channelling “material concessions and symbolic rewards” to social groups who might otherwise be excluded from the dominant mode of development (Jessop et al., 1988: 163). By increasing public expenditure and extending state-facilitated support to low income households, New Labour effectively incorporated social groups who might otherwise have been excluded from the dominant finance-led growth dynamic.

As such, those who emphasise New Labour’s the ‘social democratic’ orientation of the government’s policy platform rightly highlight the ways in which it pursued a series of social objectives through enhanced public expenditure. However, ‘social democratic’ characterisations themselves suffer from a second, distinct weakness; they deploy an inadequate definition of neoliberalism and thereby generally overstate the significance of New Labour’s public spending programme and its redistributive social policies. As such, they tend to erroneously conclude that these interventions reveal that New Labour was ‘non-neoliberal’ in character. For example, Tomlinson has outlined how growing public expenditure fuelled a substantial increase in public sector jobs particularly in the ex-industrial regions under the Blair and Brown governments (Tomlinson 2012). This, he argues, undermines the argument that New Labour pursued a neoliberal economic strategy. Tomlinson concludes that “we need to talk less about the ‘triumph’ of neo-liberalism, and more about how and why, and with what

[71] This dynamic will be examined in more detail in Chapter Seven.

political consequences, the state plays such an enormous role in sustaining current employment levels" (Tomlinson 2012: 221). Similarly, on the grounds that New Labour increased spending on public services relative to previous post-war governments, Smith concludes that the party was "certainly not neo-liberal" (Smith 2014: 618). The problem with these arguments is that they rest on a simplistic understanding of neoliberalism which views it essentially as a 'free market' project concerned with establishing a limited, night-watchman state. The expansion of public spending and public sector jobs under New Labour is therefore viewed as sufficient grounds to characterise the Party as pursuing a 'non-neoliberal' political programme. However, as was argued in Chapter Three, this conclusion is unwarranted. Expanded public expenditure and public sector job creation are better conceptualised as elements of a distinctive legitimation strategy - or 'One Nation' hegemonic project - which operated in parallel with the consolidation of finance-led growth dynamic throughout the pre-crisis conjuncture.

In contrast to the above 'neoliberal' and 'social democratic' conceptualisations, then, New Labour's political economy is conceived here as embodying a 'hybrid' regime of social and economic development. This is because it rested upon two analytically distinguishable modes of state intervention which operated in distinctive ways throughout the pre-crisis conjuncture. On the one hand, New Labour's approach was underpinned by a finance-led accumulation strategy which simultaneously relied upon and deepened the neoliberalisation of the British economy. On the other hand, New Labour's political economy was organised around a distinctive legitimation strategy or 'One Nation' hegemonic project through which it channelled material concessions and symbolic rewards to the social base. In accordance with this political orientation, New Labour substantially boosted spending on public services - in particular on health and education - which resulted in substantially increased levels of public sector and state-supported employment particularly across the ex-industrial regions (Tomlinson, 2012c). Additionally, this dynamic was flanked by a series of (often covertly employed) redistributive social policies which channelled resources to low-to-middle income households. These policies played a key role in reducing relative poverty, constraining the growth of income inequality and mitigating the uneven development of 'Anglo-liberal' capitalism in the pre-crisis conjuncture (Hay, 2013c; Joyce & Sibieta, 2013). As such, whilst under New Labour the neoliberalisation of the British economy continued apace, this dynamic was complimented and sustained by an *expansion* of state intervention in key areas of social life and a *rolling-out* of state capacities at a variety of different spatial scales (Howell 2015: 3).

The 'hybridity' of the New Labour project has been acknowledged elsewhere in the literature (Hall 2005; Driver & Martell 2006: 28). However, these conceptualisations typically conceive of the 'hybridity' or 'composite' nature of New Labour in terms of the myriad *ideological* strains and influences which it contained. The conception of 'hybridity' as it is advanced in this thesis goes beyond these ideational characterisations. Rather, in line with the reformulated regulationist conceptual framework advanced in Chapter Three, the argument is that New Labour's pursuit of a finance-led accumulation strategy and a 'One Nation' legitimation strategy gave rise to a temporary but nonetheless relatively durable *regime of development* throughout the pre-crisis conjuncture. This hybrid regime of development was crucial to stabilising British capitalism throughout in this period. First, it ensured that social groups who might otherwise have been excluded from Britain's finance-led growth model were - at least to a limited extent - incorporated into the dominant regime of development. Second, this helped to underpin the legitimacy of Britain's growth model. Third - as shall be argued in Chapter Seven - this helped to contain and mitigate the uneven development of British capitalism throughout the pre-crisis conjuncture. Importantly, this conception of New Labour's 'hybrid' regime of social and economic development provides us with a useful benchmark against which to measure processes of continuity and change under the Coalition in the post-crisis conjuncture.

4.6 Conclusion

This chapter has traced the evolution of New Labour's political economy throughout the 'pre-crisis conjuncture'. In the first section, a brief review of the 'modernisation' process which took place within the Labour Party throughout the 1980s and early 1990s was offered. Section Two then advanced a critical analysis of New Labour's fiscal, monetary, labour market, welfare and financial regulation policies in government. It was argued that New Labour effectively consolidated and extended the neoliberalisation of the British economy throughout the pre-crisis conjuncture. New Labour's political economy rested upon establishing a 'logic of discipline' whereby economic policymaking was increasingly insulated from the democratic process and 'de-commodified' spheres of social life were increasingly subjected to the discipline of the market mechanism. At the same time, however, Labour inadvertently contributed to a growth of sustained *in*discipline concentrated in credit and capital markets which would subsequently render the British economy susceptible to financial contagion and crisis. In Section Three, however, it was argued that a range of 'counterveiling' factors were also in evidence throughout the New Labour period. In particular, it was argued that New Labour's programme of expanding public spending from 2000 onwards and its (limited) redistributive social policies distinguished the Blair and Brown governments from their Conservative predecessors. In the final section, it was argued that New Labour's political economy is best viewed as a 'hybrid' regime of social and economic development. On the one hand, New Labour's approach was strongly informed by a finance-led accumulation strategy which sought to subordinate social policy to the perceived preferences of internationally mobile capital. However at the same time New Labour advanced a distinctive legitimation strategy or 'One Nation' hegemonic project which was oriented towards securing broad-based support within society. This was achieved through expanding spending on the public sector and through the development of an array of 'redistributivist' social policies. This hybrid regime of development produced a relatively coherent framework which - for a period of time - secured stable accumulation and continued legitimation throughout the pre-crisis conjuncture.

We can draw two conclusions from the above analysis which directly relate to the broader argument of this thesis. First, the characterisation of New Labour as pursuing a 'hybrid' regime of development improves upon the existing growth model perspective. As was argued in Chapter Two, the problem with the growth model perspective is that insofar as it acknowledges a role for the state at all, it tends to analytically privilege those forms of state intervention which were 'functional' to - or in other words actively facilitated – financialisation processes throughout the pre-crisis conjuncture. This means that the approach struggles to explain how British capitalism was effectively stabilised throughout the pre-crisis conjuncture. The above conception of New Labour's 'hybrid' political economy overcomes this limitation. In particular, it draws attention to the ways in which New Labour's finance-led accumulation strategy was effectively coupled with a 'One Nation' hegemonic project which channelled resources to subordinate social groups. It was this second dimension of the New Labour project which secured the (partial) stabilisation of British capitalism throughout the pre-crisis conjuncture.

Second, the above analysis of New Labour's 'hybrid' regime of development provides us with a useful benchmark against which to analyse continuity and change under the Coalition. The following three chapters will assess the Coalition's political economy by tracing the ways in which it represented a rupture with or a continuation of New Labour's hybrid regime of development. To this end, Chapter Five will examine the evolution of the Coalition's accumulation strategy in office. Chapter Six will then turn to the ways in which the Coalition pursued a distinctive legitimation strategy in the post-crisis conjuncture. Chapter Seven then turns to the Coalition's programme of public sector retrenchment and examines the extent to which this deepened uneven development in the post-crisis conjuncture. In each case, emphasis will be placed on the ways in which the Coalition's political-economic strategy represented a *continuation of* or a *rupture with* New Labour's 'hybrid' regime of social and economic development. The argument will be that whilst the Coalition effectively re-established the conditions for a renewed wave of finance-led growth in Britain, it effectively broke with New Labour's 'One Nation' legitimation strategy or hegemonic project. This in turn raises important questions about the sustainability of Britain's emergent post-crisis model of capitalism.

5. The Coalition's Economic Strategy

> *We will bring responsibility to rebuilding our economy, not taking the easy route of pumping the bubble back up, repeating the mistakes of the past decade, building another unsustainable boom, but creating a new economic model, where we save and invest for the future instead of building an economy on debt*
>
> (Osborne, 2010d)

> *Politics is responsible for the stability as well as the constant transformation of social relations*
>
> (Bertramsen et al., 1991: 25)

5.1 Introduction

The previous chapter argued that New Labour established a distinctive 'hybrid' regime of development which combined a finance-led accumulation strategy with a programme of enhanced public spending and (limited) redistribution. This framework supported relatively stable economic growth, secured New Labour's governing legitimacy and temporarily stabilised the uneven development of Britain's growth model throughout the pre-crisis conjuncture. However, the financial crisis of 2008 fundamentally undermined this model of social and economic development. Lending dried-up, economic output fell and the public finances deteriorated. As a result, New Labour's 'hybrid' political economy came under enormous pressure. The following three chapters examine what I term the 'post-crisis conjuncture'. This is defined as the period of time between May 2010 and January 2015 when a Coalition government - led by the Conservative Party in partnership with the Liberal Democrats - came to power in Britain. In this period, the British economy moved from a prolonged and deep economic stagnation to one of putative economic recovery. The three following chapters focus on a different dimension of the Coalition's political economy during this transitionary period. This chapter focuses on the *economic strategy* which the Coalition deployed in order to re-establish economic growth and governing legitimacy whilst in office.

The chapter is organised around two specific questions:

1. What were the key features of the Coalition government's economic strategy and how did it evolve over time?
2. Can we identify a re-emergence of 'privatised Keynesianism' in the post-crisis conjuncture?

In order to answer the first question, the chapter advances a distinctive periodisation of the Coalition's economic strategy and identifies five distinct 'phases' in its development. The first section examines the evolving economic programme which was established during Cameron's leadership of the Conservatives in opposition and which was subsequently incorporated into the Coalition's economic strategy in government. The following three sections outline and critically engage with the development of the Coalition's economic strategy in office, identifying a phase of *strategic positioning* between May and October 2010, a phase of *implementation and policy failure* between October 2010 and December 2012, and a phase of *partial reversal and economic recovery* between December 2012 and December 2014. These sections outline how the Coalition's accumulation strategy rested upon two ostensible economic policy objectives: the goal of securing deficit reduction primarily through cuts to public expenditure and the goal of securing a sectoral and geographical rebalancing of the British economy. In each case, it is argued that a distinction needs to be made between the Coalition government's discursive commitment to each economic objective and the actual policy interventions which it made in office.

The fourth section then turns to the second question. It is argued that whilst the Coalition did not fundamentally steer the British economy away from the model of 'privatised Keynesianism' which had predominated in the pre-crisis conjuncture, claims that the 2013 economic recovery was driven principally by a re-emergence of Britain's pre-crisis growth model need to be qualified somewhat in light of new evidence. First, key mechanisms which had been in place during the first round of 'privatised Keynesianism' - in particular high levels of equity release and high net borrowing by households - were simply not in evidence during Britain's putative 2013 economic recovery. As such, it is argued that the Coalition period is better viewed as an interregnum between New Labour's pre-crisis model of privatised Keynesianism and a probable wave of renewed private debt-led growth in the 2015 to 2020 parliament. At the same time, the chapter draws attention to key moments of state intervention in the housing market - exemplified by the 'Help to Buy' policy - which suggest that sustained efforts were made by the Coalition to re-establish some of the key conditions of the 'privatised Keynesian' growth model. The final section concludes by drawing-out some of the implications of the analysis before placing the conclusions of the chapter within the wider argument of the thesis.

5.2 The Conservative's economic strategy in opposition: from 'policy emulation' to 'differentiation' (2005 - 2010)

As outlined previously, since the UK's ejection from the ERM, the Conservatives had consistently been trusted less with the public finances than Labour. In particular, from the 2001 general election onwards, Labour had ruthlessly portrayed the Conservatives as a grievous threat to 'investment' in public services as well as a threat to economic stability (Hindmoor, 2004: 152). Labour's electoral dominance over the pre-crisis conjuncture was to a considerable extent premised upon the success of this narrative (Faucher-King & Galés, 2010: 41). In order to unseat this impression, in the years immediately before and after the financial crisis, the Conservatives deployed two distinctive strategies to reclaim the mantle of economic 'credibility' and governing competence from the Labour Party.

The Conservative's first approach, adopted broadly between 2005 and 2008, involved a *strategic emulation* of key aspects of New Labour's social and economic programme. In May 2005, the Conservatives suffered their third successive election defeat. Subsequently, David Cameron was elected party leader on a 'modernising' platform, positioning himself as a centrist candidate who would reform Conservative Party policy in order to 'de-toxify' the Tories in the eyes of the electorate (Evans, 2008). From 2005 - 2007 this 'modernisation' process was at its most palpable: Cameron attempted to move his party away from its "traditional policy emphasis on issues such as Europe, taxation, immigration and welfare, [and] drew attention to the environment... the NHS, flexible working and international aid" (Dommett, 2015: 256).[72] Drawing lessons from the Blair premiership, Cameron ostensibly sought to position his Party on the 'centre-ground' of British politics, focussing on winning back voters in key marginal constituencies and appealing to social groups who had not previously supported the Conservatives (Quinn, 2011: 404). This was done through two tactical manoeuvres. First, the Conservative leadership pursued a strategy of 'triangulation' through which it sought to mimic and ultimately take ownership of key aspects of New Labour's approach to social policy (Dorey 2009: 260; Gamble, 2012: 62). For example, in 2006 Cameron acknowledged the importance of 'relative' poverty as well as 'absolute' deprivation and stated that reducing it would be one of his key goals in government (Cameron, 2006b). This implied that income inequality would no longer

[72] The extent to which Cameron 'modernised' the Conservative Party in opposition should not be over-stated. He remained considerably constrained by the right-wing of the party membership and recalcitrant backbench MPs (Evans, 2008; Bale, 2008, 2012; Ganesh 2012: 151; Hayton, 2013: 3).

be viewed as a 'natural' market outcome - as had been the case under the Thatcher governments - but rather was presented as a phenomenon which could in principle be effectively tackled through government policy (Page, 2010). Second, and relatedly, Cameron sought to distance his Party from certain aspects of its Thatcherite inheritance (Dorey & Garnett, 2012). In particular, Cameron criticised Thatcherism for its excessive emphasis on individualism and argued that the Conservatives should instead seek to nurture the 'Big Society' - one in which a communitarian as opposed to individualist ethos would become a central organising principle of government policy (McAnulla, 2010: 290).

This broad shift in the Conservative's rhetorical positioning was paralleled by a significant re-orientation of the Party's economic policy. Specifically, the Conservative leadership aimed to consolidate its move into the 'centre-ground' of British politics by accepting key aspects of the political-economic paradigm which had been put in place by New Labour. For instance, the then-Shadow Chancellor George Osborne aimed to neutralise the claim that the Conservatives would recklessly cut taxes in a way that might damage public services and undermine economic stability (Ganesh, 2012: 186). In a speech to the Cass Business School in January 2006, Osborne outlined how securing tax cuts would no longer be a principal macroeconomic policy goal for the Conservatives. Rather, "investment in hospitals and schools [would have] the same priority for the Tories as tax reduction" (Blitz, 2006). This position was consolidated at the Conservative Party conference later that year, when Osborne confronted tax-cutting agitators on the right of the Party, insisting that "we must win the argument on the economy. We will never do that if people believe our tax policy comes at the expense of their public services ... to those who still want us to make upfront tax cuts now, we say: we will not back down" (Osborne, 2006). In line with this new approach, in September 2007 Osborne committed to match Labour's spending plans for the next three years (Barker, 2007). The politics underlying this commitment were clear: as

Osborne put it, "the charge from our opponents that we will cut services [now] becomes transparently false" (BBC News 2007).[73] The Conservative leadership was seeking to re-assure the electorate that the NHS and other vital public services would be safe in Tory hands (Gamble, 2012: 62).

Cameron and Osborne's early emulation of New Labour's social and economic programme yielded considerable political benefits. By the end of 2006 the Conservatives were as trusted as Labour to run the economy; eighteen months earlier they had trailed by 13 percentage points (Ganesh, 2012: 168). However, the financial crash of 2007-8 led the Conservatives to fundamentally re-assess their political-economic strategy (Spours, 2015: 7). Initially, the Conservative response to the crisis was hesitant, as the opposition firstly condemned the Brown government for its indecisiveness and then proceeded to attack it for its interventions in the banking system (Dorey, 2009: 263). However, by the end of 2008, the Conservatives had begun to develop a more coherent - and ultimately more effective - economic policy narrative. Specifically, the Party moved from a strategy of *policy emulation* to one of *differentiation* from Labour and its newly-tarnished macroeconomic policy record. The goal was to create 'clear blue water' between Cameron's Conservatives and the embattled Labour government (Dorey, 2009: 266). In the summer of 2008 "economists close to the Osborne team were warning them to expect a budget deficit of at least £100 billion the following year" (Ganesh, 2012: 196). Osborne sensed that this deterioration of the public finances presented a political opportunity to the Conservatives insofar as this would undermine Brown's reputation for prudent economic management. The shadow Chancellor's goal was to capitalise on this loss of credibility and to recover the Conservative's reputation as the most competent

[73] This of course undermines the dominant Conservative narrative which claimed that Labour 'profligacy' caused the crisis (Skidelsky, 2015). It's also worth noting that this early positioning of the Cameron opposition emulated important elements of New Labour's 'One Nation' legitimation strategy.

custodian of the public finances (Gamble, 2015a: 3) . It was this political calculation more than anything else which underpinned the Conservative's new statecraft and its second political-economic strategy: that of blaming the crisis on Labour's 'over-spending', defining the crisis as one of 'debt' and then advocating a strategy of fiscal retrenchment to remedy the situation (The Conservative Party, 2009; Hay, 2010). In line with this discursive shift, the Conservatives opposed Brown's 2008 'Keynesian' fiscal stimulus package on the grounds that it would add to the public debt and deficit (McAnulla, 2010: 291). This strategy of differentiation - of prioritising a reduction of Britain's burgeoning budget deficit and tackling 'Labour's debt crisis' - would subsequently become the key organising principle of the Conservative's governing strategy in office (Gamble, 2015a).

In February 2010, three months before the General Election, Osborne outlined the core tenets of the Conservative's emergent economic strategy in the annual Mais Lecture (Osborne, 2010a). This was a significant intervention because it outlined explicitly for the first time the intellectual rationale for the austerity programme which the Conservatives would subsequently pursue in government (Dellepiane-Avellaneda, 2015: 411). Two core themes underpinned this new approach: the objective of reducing the budget deficit immediately through public spending cuts and the goal of 'rebalancing' Britain's debt-laden economic model (Osborne, 2010a). In emphasising the need to reduce the budget deficit - which stood at 11.2 per cent of GDP in 2009-10 Osborne was at one with Alistair Darling's Treasury and the Liberal Democrats (Toynbee & Walker, 2015: 84). However, deficit reduction can be achieved through a variety of different channels, including through cutting spending, reducing borrowing or raising tax revenues. The key political question in the pre-election period concerned the timing of and the appropriate balance between these three options (Gamble, 2015a). Whilst Labour aimed to half the budget deficit by 2014, it sought to "support the economy through the recession and then to cut the deficit once growth was established" (Dellepiane-Avellaneda, 2015: 411). Osborne, on the other hand, signalled that he would proceed with fiscal tightening upon taking office and would seek "to eliminate the bulk of the structural current budget deficit over [one] Parliament" (Osborne, 2010). In addition, whereas Labour planned to hold-off on fiscal consolidation until 2011 in order to protect the fragile economic recovery, Osborne made the case for initiating immediate public spending cuts within the first year of the next parliament (Watt & Mulholland, 2010). The Conservative's strategy of 'differentiation' - focussing in particular on the timing and the scale of deficit reduction - subsequently "became a key dividing line in the election between the Tories and the other two main parties" (Quinn, et al., 2011).

5.3 The evolution of the Coalition's economic strategy

In spite of the deep recession, Labour's lagging position in the polls and Brown's low approval ratings, the Conservatives failed to win a parliamentary majority in the May 2010 election. This was at least partly due to the economic policy narrative which the Party had employed since the beginning of the global financial crisis. Whilst the charge that the crisis had been caused by Labour's 'over-spending' had gained popular traction, the Conservative's proposed solution - of implementing rapid public expenditure cuts and reducing the size of the state - was regarded with suspicion by key sections of the electorate, particularly by public sector workers (Hay, 2010b: 395). In response to private polling which revealed the Party's vulnerability in key marginal constituencies, the Conservatives reined-in their austerity narrative in the immediate pre-election period (*ibid*.). Rather than specifying precisely where the axe would fall, they instead "appealed for a general mandate to bring down the deficit" (Gamble, 2012: 64).

However, sections of the electorate remained unconvinced and feared the implications of a Conservative-led austerity programme. This meant that whilst the Conservatives enjoyed an average three per cent poll lead over Labour on the economy, this was far lower than might have been expected given the wider political and economic context (Dorey, 2010: 413). The Conservative's political strategy was therefore a double-edged sword: whilst the 'debt' narrative successfully reinforced the perception that Gordon Brown was responsible for wrecking the public finances, this narrative also contributed to "considerable concern about the severity or speed of the cuts that might be imposed by a Conservative government" (Dorey, 2010: 414). Partly as a result of this perception, the Conservatives fell twenty seats short of a majority at the general election (Dorey, 2010: 430; Quinn et al., 2011).

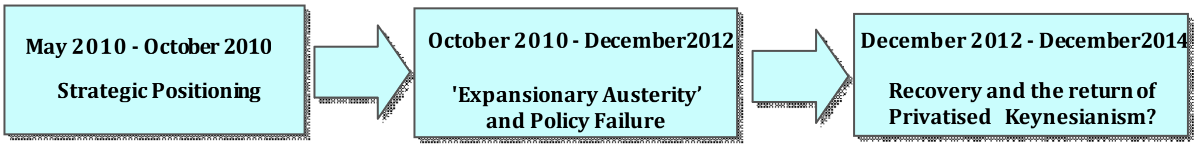
In the absence of a parliamentary majority, on 7 May the Conservatives invited the Liberal Democrats to become junior partners in a coalition government. This arrangement was ratified on 12 May with the publication of the 'Coalition Agreement' and subsequently formalised on 20 May with the publication of *The Coalition: Our Programme for Government* (Cabinet Office, 2010). Given the relative novelty of coalition government in Britain, the political and ideological complexion of the Conservative-Liberal pact generated a substantial body of academic literature.[74] However, as was indicated in the introduction to this chapter, the principal focus here is to identify the Coalition's economic strategy and to examine the extent to which this served to re-establish the growth model which had been in place under New Labour. Crucially, this requires that we view the Coalition's economic policy as more than a technical exercise in macroeconomic management. Rather, as emphasised earlier, accumulation strategies are strongly conditioned by political considerations. Recognising this point is crucial for two reasons. First, it underlines the enduring

[74] For scholarly accounts of the politics and ideology of the Coalition government see: (Bennister & Heffernan, 2011; Evans, 2011; Hayton, 2013; Hazell & Yong, 2012; Heppell & Seawright, 2012; Lee, 2011; Quinn et al. 2011; Seldon & Finn, 2015)

importance of the state and economic policymakers in successfully articulating and sustaining particular growth strategies over time. State managers do not just passively implement policies in accordance with technical considerations or in line with the preferences of dominant economic groupings in society; rather, they play a key *strategic* role in selecting, sustaining and defending particular economic strategies within a given political context. In this sense, economic policymakers are reflexive - they have the capacity to identify and to interpret policy outcomes and to change course in the face of policy failures and political pressures. Second, identifying the strategic role of state managers allows us to *periodise* the evolution of the Coalition's political-economic strategy in office more clearly. Specifically, we can identify different 'phases' in the Coalition's political economy by delineating key moments where political considerations led to strategic shifts in the economic strategy which the Coalition deployed in office.

In this regard, we can identify two distinctive objectives which underpinned the Coalition's economic programme from the outset. Both clearly bore the stamp of the economic strategy and political narrative which Osborne had developed in opposition. The first was a commitment to a programme of *deficit reduction*. This framing narrative set the government the objective of securing a balanced structural budget and a falling debt-to-GDP ratio primarily through spending cuts as opposed to tax increases. The second objective aimed to bring about a *rebalancing* of the British economy between sectors and the regions by building a 'new economic model' based on saving and investment rather than consumption and debt (Berry & Hay, 2015b). In the following sections the initial framing, implementation and evolution of the Coalition's economic strategy will be analysed with these two objectives in mind.

Figure 5.1: Three Phases in the evolution of the Coalition's economic strategy



Phase I: Strategic Positioning (May 2010 - October 2010)

On 20 May 2010 Cameron and Clegg outlined the core principles which would underpin their economic policy in *The Coalition: Our Programme for Government* (Cabinet Office, 2010). There is some evidence that the policy content of the Coalition agreement was closer to the Liberal Democrat's election manifesto than to the Conservative's (Quinn et al., 2011: 302). Whilst this might suggest that the junior partners did 'better' out of the coalition negotiations than their senior partners, on the question of economic management and specifically on the question of the timing, scale and nature of the anticipated public spending cuts, the Conservative's preferred approach to economic policy clearly prevailed (Gamble, 2012: 64). In the coalition negotiations, the issue of implementing public spending cuts had been one of Cameron's 'red lines' which he would not cross (Quinn et al., 2011: 306). Thus, whilst the Conservatives did grant some minor policy concessions to the Liberals, they did not concede any ground on the fundamentals of their proposed economic strategy (Bale, 2011: 6). For example, in the foreword to the *Programme for Government*, it was stated that "the most urgent task facing this coalition is to tackle our record debts, because without sound finances, none of our ambitions will be deliverable" (Cabinet Office, 2010: 7). To place the Coalition's central economic objective beyond any doubt, the final page of the *Coalition Agreement* underlined in an embossed, standalone box that:

> The deficit reduction programme *takes precedence over any of the other measures in this agreement*, and the speed

> of implementation of any measures that have a cost to the public finances will depend on decisions to be made in the Comprehensive Spending Review.
>
> (Cabinet Office, 2010: 35)[75]

As well as prioritising deficit reduction, the document stated that "the main burden of deficit reduction [will be] borne by reduced spending rather than increased taxes" (Cabinet Office, 2010: 15). These commitments were consistent with Conservative policy in the pre-election period and served to consolidate Osborne's control over the Coalition's central economic agenda (Hayton, 2013: 7).[76] Thus, whilst prior to the election the Liberals had argued that implementing immediate spending cuts would "undermine the much-needed recovery", they were now compelled to support and defend these measures in government (Watt, 2010). As such, "the Liberal Democrats were co-opted into an agenda of shrinking the size of the state which they would be forced to defend in principle, even if they fought for specific concessions and exemptions within the overall framework" (Hayton, 2013: 7). The principal goal of the Coalition's *Programme for Government* was therefore not primarily economic but political in two respects. First, it consolidated the Conservative's deficit reduction strategy as the core organising principle of the Coalition's economic programme and rendered the Liberals "prisoners of the austerity narrative which was about to unfold" (Gamble, 2015a: 47).[77] Second, it helped to cement the internal stability and unity of the Coalition government by identifying a common enemy and therefore a common cause around which the new governing partners could coalesce - the project of

[75] Emphasis added.
[76] Conservative control over the Coalition's central economic agenda remained in place throughout the 2010 - 2015 parliament (Hayton, 2013: 11)
[77] Although it should be noted that key elements of the Liberal leadership - in particular Nick Clegg and David Laws - were to an extent 'willing' prisoners of the austerity narrative. Their 'Orange Book' variant of liberalism - which was anti-statist and economically liberal - could be viewed as broadly sympathetic to key aspects of the Conservative's economic programme (Taylor-Gooby & Stoker, 2011: 11). This ideological overlap formed the 'cornerstone' of the Coalition's prospectus and provided the "overarching goal that ...sustain[ed] the partnership through the inevitable conflicts and compromises" of Coalition (Atkins, 2015: 89).

'clearing-up Labour's mess' in line with a particular conception of the 'national interest' (Atkins, 2015; Gamble, 2015: 156). As such, whilst the Coalition's *Programme for Government* clearly signalled the Coalition's commitment to pursue a strategy of fiscal austerity, the specific details of where the cuts would fall would not be outlined until later in the year with the June Emergency Budget and the October Spending Review (Taylor-Gooby & Stoker, 2011: 5; Gamble, 2012: 65).

The 'Emergency Budget', published on 22 June 2010, was a crucial staging post in the Coalition's approach and a 'grand strategic budget', driven primarily by Osborne (Ganesh, 2012: 290). Whereas Osborne had previously suggested that he would seek to eliminate approximately half the budget deficit over one parliament, his political 'masterstroke' in the June 2010 Budget was to announce that the Coalition government would aim to eradicate the entirety of the budget deficit in a single parliament (Gamble, 2014: 47). Specifically, the Conservative-led government would now aim to reduce cyclically adjusted net borrowing from 8.7 per cent of GDP in 2009-10 to 0.3 per cent in 2015-16 (Grimshaw, 2013: 1).[78] The Budget also set a target for debt to be falling as a percentage of GDP by the same year (Osborne, 2010b). These moves were designed to entrench the dividing line between a fiscally 'responsible' Conservative-led Coalition and the Labour opposition. A broad prospectus of where the burden of deficit reduction would fall was also provided: spending cuts as opposed to tax increases would account for 77 per cent of total fiscal planned consolidation (HM Treasury, 2010a: 15). In order to achieve this, the Budget stated that public spending would be cut by £83 billion between 2010 and 2015, which translated into an average cut of 25 per cent for 'non-protected' government departments. In terms of specific tax and benefit measures, the Budget increased VAT from 17.5 to 20 per cent, which

[78] 'Cyclically adjusted net borrowing is "the current budget deficit adjusted for temporary rises/falls that are associated with a temporarily weak/strong economy... this measure gives a better indication of the underlying health of the public finances than the headline measure" (Crawford et al., 2014).

"constituted a £12 billion tax rise per annum, the equivalent of almost 1% of GDP" (Keegan, 2014: 47).[79] This represented a reversal of the expansionary cut to VAT which the Brown government had implemented as part of its initial response to the economic crisis. This was flanked by 'in-year' spending cuts of £6.2 billion, with £4.8 billion of this secured from reduced central government spending on public services and their administration (Watt, 2010; Chote & Emmerson, 2010). Whilst in the pre-election period the Conservatives had been unwilling to specify where the cuts would fall, in the June Budget Osborne "significantly hardened his fiscal stance" (Gamble, 2015b: 156). The transition from Labour's two years of moderately expansionary fiscal policy to the politics of austerity and public sector retrenchment had begun to take shape (Wren-Lewis, 2015: 8).

However, the June Budget only gave a 'taster' of the cuts which were to come. The full details of the deficit reduction programme were announced in the Spending Review of 20 October 2010. This outlined where the majority of the cuts would fall for the following four years starting from April 2011 (Ferry & Eckersley, 2012; Sowels, 2014). Additional savings from the welfare budget allowed Osborne to announce a fiscal consolidation programme which at first appeared to be less harsh than the cutbacks which had been anticipated in the June Budget (Ganesh, 2012: 265). Rather than the projected 25 per cent average cut, non-protected departmental budgets would instead be slashed by 19 per cent over four years in order to save £81 billion (Ferry & Eckersley, 2012: 17). Nevertheless, the Spending Review still "envisaged the tightest squeeze on overall public expenditure since 1945; the tightest settlement for spending on public services [since the mid-1970s]... and the tightest squeeze on NHS spending since the period from April 1951 - 1956" (Lee, 2011: 15). As such, "the plans set out by the government in the October 2010 Spending Review...[implied] public service

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[79] Some other relatively minor changes to tax and benefits were also made. However, these changes were relatively insignificant compared to the cuts programme which was announced in the October Spending Review. See in particular (Gamble, 2012).

spending [would decline] rapidly as a share of national income, falling from 31.7% in 2009–10 back to 25.6% of national income in 2014–15" (Crawford et al., 2011a: 135). Local government funding was to be hit hardest, with a 27 per cent cut amounting to £5.5 billion in real terms between 2010-11 and 2014-15 (Lee, 2011b: 16). The Spending Review also anticipated that as a result of the spending cuts, 490,000 jobs would be lost in the public sector (HM Treasury, 2010b: 38).[80] Again, it was confirmed that the burden of deficit reduction would be borne by public spending cuts rather than tax increases, with 80 per cent of fiscal tightening focussed on the former (Emmerson & Tetlow, 2015: 21).

The Coalition's first six months in power can therefore be characterised as a phase of *strategic positioning* in the sense that the government's principal objective in this period was primarily political as opposed to economic (Gamble, 2015a: 158). As the above paragraphs suggest, three strategic goals in particular underpinned the early positioning of the Conservative-led Coalition: (i) reinforcing the unity and stability of the Coalition government, (ii) securing Conservative control over the Coalition's central economic agenda, and (iii) entrenching the narrative that the crisis was caused by Labour's 'profligacy' and that only a programme of rapid expenditure cuts as opposed to tax increases could repair the nation's finances. As this implies, the Coalition's austerity programme should not be viewed simply as an economic policy platform designed to bring about budgetary balance. From the beginning, the Coalition's fiscal consolidation strategy was underpinned by highly political considerations. It embodied a distinctive post-crisis statecraft which outwardly concentrated on the issue of the budget deficit but which in practice sought to entrench a new dividing line in British politics between a 'credible' Conservative-led government and an 'irresponsible' Labour Party which was in a state of 'deficit denial' (Wickham-Jones, 2013: 41).

[80] Although the actual figure of public sector job losses was considerably higher.

Phase II: 'Expansionary Austerity' and policy failure (October 2010 - December 2012)

Whilst the early strategic positioning of the Conservatives within the Coalition entrenched the central economic narrative of the new government and consolidated its political position, the commitment to securing immediate spending cuts represented a high-risk economic strategy in a context of low growth and fragile economic recovery (Stiglitz, 2010). Although a nascent recovery had begun to emerge under Darling's chancellorship between the fourth quarter of 2009 and the second quarter of 2010, unemployment remained high at 2.5 million, demand remained weak and business confidence remained low (Keegan, 2014: 42). It is worth noting that the Coalition's total fiscal consolidation package advanced in the October CSR was equivalent to 7 per cent of national income (Emmerson & Tetlow, 2015: 20). However, as the IMF warned at the time, fiscal consolidation equivalent to 1 per cent of GDP typically reduces output by 0.5 per cent and impacts negatively on domestic demand (IMF, 2010: 96; Sawyer, 2012: 208). As such, the danger was that pursuing a potentially deflationary programme whilst output and confidence remained low risked pitching the British economy into a 'double dip' recession (TUC, 2010b).

The Coalition's economic strategy and its public rationale for austerity rested upon a critique of deficit-financing and upon the articulation of a positive vision of how austerity could actually facilitate an economic recovery. Between 2010 and 2012, Osborne rationalised and defended his approach through an appeal to the idea of 'expansionary austerity'. This is the principle that enacting deficit reduction through spending cuts during a recession can lead to lower commercial interest rates, increased business confidence and ultimately to a private sector-led recovery. This conception therefore offered a critique of Keynesian deficit-financing as well as a positive vision of how austerity could facilitate private sector expansion and economic recovery. In making this argument, Osborne drew on a series of economic ideas associated with the 'Bocconi School' of neoclassical economics and specifically on the theory of 'expansionary fiscal contractions' as advanced by Alberto Alesina and his collaborators (Giavazzi & Pagano, 1990; Blyth, 2013: 167; Elliott, 2013; Dellepiane-Avellaneda, 2015)[81] The 'expansionary fiscal contraction' thesis makes two key empirical claims: (i) that rapid fiscal consolidation during an economic downturn can successfully reduce debt-to-GDP ratios without undermining economic growth and (ii) that such programmes are more likely to be successful if they place the burden of deficit reduction on spending cuts as opposed to tax increases (Alesina, 2010; Dellepiane-Avellaneda, 2015: 400). As should be clear, this approach explicitly rejects the Keynesian argument that cutting public expenditure in an economic downturn is likely to deepen the slump. Indeed, it inverts this logic and makes the argument that fiscal consolidation during a recession can actually prove to be expansionary, boosting business investment and employment levels. The key mechanism which underpins this conception of 'expansionary austerity' is what is termed an 'expectations channel' (Blyth, 2013: 172). According to this argument, private firms and households recognise that deficit-financing must ultimately be paid for out of future taxation. As a result, if governments run large deficits, private actors will rationally withhold investment and consumption as they anticipate future hikes in taxation. The policy prescription - advanced in a series of contributions by Alesina and others - was that if governments commit themselves to a 'credible' programme of deficit reduction focussed on spending cuts this would signal to market actors that they could expect tax reductions in the future as interest payments on the national debt would subsequently decline (Alesina, 2010; Ardagna & Alesina, 1998). As a result, cutting public expenditure in a recession

[81] For some of the key theoretical and empirical contributions which advance the 'expansionary fiscal contraction' thesis see: Alesina & Perotti, 1994, 1995; Ardagna & Alesina, 1998; Alesina & Ardagna, 2009; Alesina, 2010; see also: Dellepiane-Avellaneda, 2015: 400.

could, *pace* the Keynesian proposition, have a “benign impact on expectations” and fuel economic growth (Dellepiane-Avellaneda, 2015: 393).

This conception of *expansionary austerity* became a key point of reference in the Conservative’s economic strategy and in Osborne’s public rationale for austerity in the first two years of the parliament (Henry, 2014: 14; Krugman, 2011; Romer, 2011: 18). Indeed, as Baker has argued, the conception of ‘expansionary fiscal contractions’ is “as close as we get to an intellectual underpinning for the coalition’s policies” (Baker, 2011). For example, in his Mais Lecture Osborne had claimed that if governments did not reduce their budget deficits rapidly, firms and households would anticipate future tax increases which in turn would lead them to hold-back on current investment and expenditure (Osborne, 2010a). In the same year, Osborne argued that, “there are many well-studied examples of ‘negative fiscal multipliers’, in which credible fiscal retrenchments in fact stimulated the economy, via greater consumer and investor outlays, by reducing borrowing costs and spurring confidence” (Osborne & Sachs, 2010). These arguments for expansionary austerity were echoed by Osborne’s Chief of Staff, Matthew Hancock, when he approvingly cited “research into dozens of past fiscal tightenings [showing] that, more often than not, growth doesn’t fall but accelerates”, adding that, “the second lesson from the research is that consolidation helps growth when it’s mostly done through spending cuts, not tax rises” (Hancock, 2010). Similarly, Osborne argued in the same year:

> “A credible fiscal consolidation plan will have a positive impact through greater certainty and confidence about the future. Businesses can expand safer in the knowledge that an out of control budget is not going to lead to ever higher taxes. Consumers can spend safer in the knowledge that mortgage rates will remain lower for longer.”

(Osborne, 2010a)

This argument for ‘expansionary austerity’ was complemented by two further justifications for implementing immediate spending cuts. First, the Coalition argued that excessive public expenditure ‘crowds-out’ private sector activity. Specifically, this argument claims that if the government sustains a large deficit this will increase demand for credit which in turn increases borrowing costs for private firms and households (Baker, 2011). Government spending - including in the midst of a recession - therefore discourages private investment and compounds economic stagnation. Conversely, if the government commits to a reduction in its own borrowing, this will translate into lower commercial interest rates for the private sector which in turn will create the conditions for increased business investment. In the June Budget, Osborne confirmed this line of reasoning when he stated that, “it is my deeply held belief that a genuine and long-lasting economic recovery must have its foundations in the private sector”. For that to happen, he argued, it was crucial that the state was not “crowding out private endeavour” (Osborne, 2010b; Simms, 2013). This was complemented by a second line of argument which emphasised the non-negotiable nature of implementing an immediate austerity package. Specifically, Osborne argued that if the government did not implement austerity on its own terms, it would be forced to do so by international financial markets subsequently. He invoked the example of Greece to argue that failing to constrain public spending would lead to capital flight and punitive bond yields. Drawing on this line of argument at the 2010 Conservative Party conference, Osborne said: “so, why do we have to sort out the public finances? Quite simply because we have to. Because any other road leads to ruin” (Cheesman, 2014: 6).

Three related arguments were therefore deployed in defence of the Coalition’s austerity programme: (i) a positive case for fiscal consolidation couched in terms of ‘expansionary austerity’ (ii) a critique of public spending and deficit-financing as 'crowding out' private investment and (iii) an identification of the exogenous constraints imposed on the government's room for manoeuvre given the nature of international creditor institutions. This vision quite clearly promoted the idea that only the private sector could effectively lead the British economy out of the downturn and into a phase of recovery. Indeed, since the Coalition's spending plans were set to substantially reduce the size of the public sector, the government relied on increased private investment and exports to fill the 'demand gap' left by the programme of fiscal austerity (Sargent, 2014: 394). The key mechanism through which this was expected to take place was through an increase in private sector investment as lenders - buoyed by loose monetary policy, lower commercial interest rates and renewed confidence in the government's fiscal position - expanded their economic activities (Dellepiane-Avellaneda, 2015: 411). However, this approach was not without its risks. As one commentator put it, "Osborne was laying a colossal bet on the future - that the private sector would rebound as the state pulled back" (Ganesh, 2012: xiii). Between the period of 'strategic positioning' in 2010 and the middle of 2013, this gamble on 'expansionary austerity' backfired.

First, business investment did not only fail to 'fill the gap' created by the public expenditure cuts; it actually *fell* for first three years of the Coalition government (Keegan, 2014). The Coalition's original plans had assumed a 'crowding in' of investment and growth by the private sector equivalent to 9 per cent of GDP (Lee, 2011a: 63). However, "real private investment, which had been forecast to grow by 33.7% from the first quarter of 2010 to the end of the second quarter of 2013, had actually fallen by 10.5%" (Lee, 2015: 23). Far from unleashing the 'animal spirits' of private investors, rapid fiscal consolidation was accompanied by a sharp decline in business confidence between 2010 and 2012. One report, for example, found that "the Coalition had experienced the weakest spell of business confidence in two decades" (Roland, 2012). This absence of private investment was compounded by huge cuts to the government's capital budget. The Treasury had made the calculation that reductions to the capital budget would be less politically harmful than current expenditure cuts as the effects of reducing the former would not be felt immediately by the electorate. As such, in their first two years the government cut investment spending rapidly from 3.3% to 1.9% of national income, a cut of around 40% (Van Reenen, 2015: 3). This added to the absence of overall investment and compounded the weak growth figures which stalked the Coalition's first three years in office. Indeed, the OBR – which had consistently assumed that an increase in both investment and net trade would accompany the Coalition's austerity programme – acknowledged in its 2013 Forecast Evaluation Report that the anticipated increase in investment had not materialised (Lee, 2015: 22; Sawyer, 2012).

Second, the Coalition's objective of facilitating an export-led recovery also failed to materialise. Partly as a result of QE and a historically low base rate, Sterling had depreciated by 25.4 per cent and 15.4 per cent in 2008 against the dollar and the euro respectively (Berry, 2013: 3). Usually - as in the devaluations of the 1976 and 1992 - currency depreciation on this scale would lead to an increase in exports and a decrease in imports as the cost competitiveness of tradeable goods increases relative to other currencies. However, the annual trade balance between 2009 and 2012 declined by an average of 8 per cent (Berry, 2013: 3). Indeed, between 2009 and 2013, industrial production fell substantially in Britain (ONS, 2013: 1). Whilst in the 2011 Budget Osborne had promised a 'march of the makers' and a resurgence of Britain's industrial base, by January 2013, manufacturing had contracted by 0.4% and the construction sector by 9% (Inman, 2013).

Falling levels of private investment and weak exports meant that in the first half of the parliament, the anticipated economic recovery remained elusive (Lee 2015). For example, between the third quarter of 2011 and the first quarter of 2013 output expanded by a meagre 0.4 per cent (ONS, 2013: 1). It was clear that Osborne's vision of 'expansionary austerity' had not delivered the private sector-led resurgence which both he and the OBR had anticipated.[82] As a result, whereas the OBR had forecast in October 2010 that by 2013 the UK would have achieved 7.7 per cent growth, the actual figure turned out to be less than a third of that at 2.6 per cent. Crucially, there is strong evidence that Osborne's programme of rapid fiscal consolidation was responsible in large part for weak growth in this period: the OBR itself estimated that fiscal contraction had reduced growth by 1 per cent in both 2010-11 and in 2011-12, although other studies argued that this was a conservative estimate once 'fiscal multipliers' - i.e. the 'knock-on' effect that this contraction in output had on the wider economy - are taken into account (Jorda & Taylor, 2013; S. Wren-Lewis, 2015). The long-term impact of this decline was that "it took five and a half years for real GDP per quarter to attain the level of [the first quarter of] 2008" (Ellman, 2015). Fiscal contraction - *pace* Alesina and his fellow-travellers - had not proven to be expansionary; it had been contractionary, full stop.

The delayed and weak economic recovery significantly undermined the Coalition's deficit reduction targets. In order to deliver the £81 billion of savings which the 2010 *Spending Review* had outlined, the government needed growth rates to follow the OBR's predictions (Ferry & Eckersley, 2012: 21). As we have seen, this didn't happen. Deficit reduction was frustrated largely because the poor performance of the economy between 2010 and 2012 had a strongly negative impact on tax revenues (Emmerson & Tetlow, 2015). One of the key issues here was the changing composition of the labour market under the Coalition. Firstly, low pay work proliferated: 77 per cent of net job creation between June 2010 and December 2012 was concentrated in

[82] For example, in its June 2010 pre-Budget report, the OBR had estimated that GDP growth would be 2.3 per cent in 2011, 2.8 per cent in 2012 and 2.9 per cent in 2013 (Keegan, 2014: 140). However, the actual figures came in at 1.1 per cent, 0.3 per cent and 1.7 per cent respectively (ibid).

'low pay' sectors such as retail and residential care activities (TUC, 2013: 5). Since low pay employment typically generates lower tax revenues than well remunerated work, this undermined the Coalition's deficit reduction targets. Secondly, the recession had been accompanied by a rapid decline in real wages which was unprecedented in modern times: in 2012 real wages remained 7.9 per cent below their pre-crisis peak whilst 41 per cent of workplaces had implemented wage-freeze or wage cut programmes (WERS, 2013: 7). This dynamic of real wage stagnation compared unfavourably with the recessions of the early 1980s and 1990s, where real median wages had both recovered within two years of each respective downturn (Green & Lavery, 2015: 15). As a result, stagnant real wage growth from 2010 to 2013 further undermined demand and constrained tax revenues accruing to the Treasury. The result of this was that whereas in June 2010 the OBR had forecast that public sector net borrowing would be £60 billion in 2013, the actual figure came in at £108 billion. As one report put it at the time, of this shortfall of £58 billion, "more than half of [it] – over £30 billion – can be explained by weaker income tax receipts and national insurance contributions, with the continued weakness of earnings growth a key drag" (OBR, 2014: 54). Whilst public employment declined the private sector did 'fill-in' in a sense - for example private sector employment increased by 4 per cent between 2011 and 2012, bringing the figure above its pre-crisis peak - but the precarious, low pay nature of many of these jobs meant that the tax revenues generated were lower than anticipated and deficit reduction was therefore rendered more difficult.

By the end of 2012, the Conservative strategy of 'expansionary austerity' had failed to deliver the private sector-led recovery which the Coalition had anticipated in Phase I of its strategic positioning. Private investment and net trade remained unimpressive. Weak tax revenues and real wage stagnation were frustrating the Coalition's deficit reduction targets. Whilst Osborne had inherited a growth rate of 2.6 per cent between 2009 and 2010, between September 2010 and April 2013 growth had registered at a paltry 0.8 per cent *in total* (Blanchflower, 2013). However, despite this, the idea of 'expansionary austerity' remained a key discourse underpinning Osborne's economic strategy in Phase II of the Coalition period. As one scholar put it:

> The coalition's initial diagnostic and proposed solutions [of expansionary fiscal contraction] remained unchanged over time, even in the face of missed targets and policy failures. The proposed path has been insulated from policy learning. On the contrary, sticking to the course, the model of expansionary contraction, was the main theme of the 2011 and 2012 Budgets...no policy anomaly, the double-dip recession, the possibility of a triple-dip one, the downgrading of British public debt, was enough to shock the cognitive foundations of existing policy commitments.
>
> (Dellepiane-Avellaneda, 2015: 412)

However, despite retaining a rhetorical commitment to the original deficit reduction strategy, Osborne came under severe political pressure between the end of 2011 and the spring of 2013 to change course. As one commentator noted, "when growth went sickly in 2010 and then stagnated for much of 2011 and 2012, one government figure recalls: 'Osborne was shitting himself'" (Rawnsley, 2015). In March 2013, Osborne's personal approval ratings registered at negative 33 points - the lowest level recorded by any Chancellor since the recession of the early 1990s (Stacey, 2013). In the same year, 60 per cent of voters perceived that the government was managing the economy 'badly' (May 2015, 2014). These perceptions were compounded by negative external evaluations of the Coalition's economic record. In January 2013, Olivier Blanchard of the IMF argued that Osborne needed to re-assess his deficit reduction programme, whilst between February and April 2013 the ratings agencies

Moody's and then Fitch downgraded the UK's credit rating for the first time since 1978 (BBC News, 2013).[83] The transition into 'Phase III' of the Coalition's economic strategy was underpinned by the goal of reversing these negative perceptions of the government's record and in particular of returning growth to the British economy before the 2015 election. Achieving this objective, however, would lead the Coalition to violate some of the key principles which it had set-out in Phase I and II of its political-economic programme.

Phase III: Policy Change and Discursive Continuity (December 2012 - December 2014)

It is widely acknowledged that weak economic growth and the associated failure to keep to the planned programme of deficit reduction led the Coalition to modify its economic strategy in the first half of the parliament (Gamble, 2015b: 160). However there are two ambiguities in the literature which need to be dealt with. The first is that the specific timing of this shift in direction remains rather ambiguous. For example, Lee acknowledges that in the "first two years of office [i.e. up to May 2012], fiscal contraction did not fuel the expected economic expansion", but then goes onto identify the OBR's October 2013 *Forecast Evaluation Report* as a key moment which symbolised that there had been a shift in the Coalition's economic strategy (Lee, 2015: 20 – 22). Similarly, Gamble states that, "in 2012, faced with the prospect of a double dip recession in the UK and with no recovery in sight, Osborne did adopt a Plan B, easing up on austerity, and postponing many of the cuts in public spending to the next parliament" (Gamble, 2015b: 159). However the precise moment at which this change in direction took place remains unspecified. This ambiguity over the question of timing

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[83] The Labour opposition, for its part, did its best to capitalise on Osborne's failure to deliver growth and deficit reduction according to the Coalition's own targets. For example, in his response to the 2012 Autumn Statement, Shadow Chancellor Ed Balls said that, "the defining purpose of the Government, the cornerstone of the Coalition, the one test they set themselves – to balance the books and get the debt falling by 2015 – is now in tatters (Ed Balls, 2012).

is perhaps unsurprising; in the complex world of economic policymaking there is rarely a single identifiable 'moment' at which a definite shift in strategy takes place. However, one contribution of this section will be to more clearly delineate the key moments when the Coalition's deficit reduction strategy began to shift. The second point of ambiguity in the literature is that it tends to not distinguish adequately between two closely related but nevertheless distinct aspects of the shift in the Coalition's economic strategy. The first change is the one noted above: the move to postpone the original timetable of deficit and debt reduction into the next parliament. The second change was the return of economic growth and the re-emergence of what some have termed "privatised Keynesianism Mark II" (Hay, 2013a). The following sections distinguish analytically between these two shifts and relate these changes to the strategic priorities of the Coalition government. Let us now take each point of transition in turn.

The postponement of deficit reduction

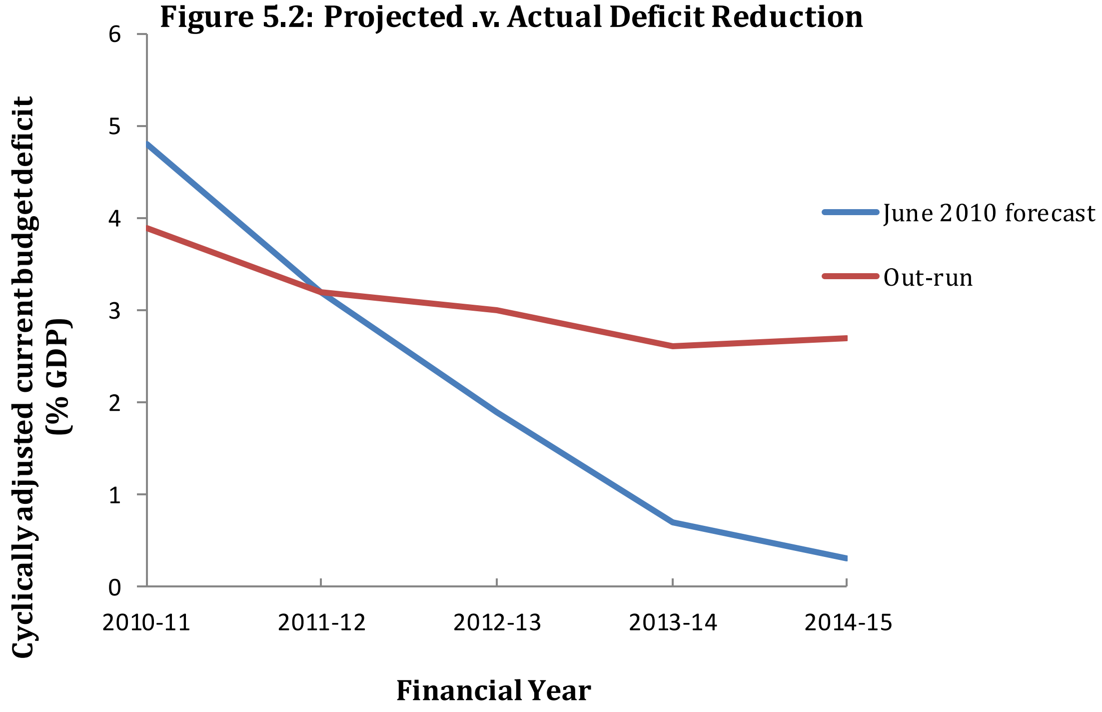
The first explicit acknowledgement that the original timetable for deficit reduction would not be met came as early as November 2011 in the Chancellor's Autumn Statement (Osborne, 2011). In its report accompanying the Autumn Statement, the OBR massively downgraded its growth forecasts: whereas it had previously predicted growth of 1.7 per cent for 2011, this was downgraded to 0.9 per cent, whilst its forecast for 2012 was downgraded from 2.5 per cent to 0.7 per cent (OBR, 2011). As a result, it was forecast that the structural deficit would remain until 2016-17, two years later than initially anticipated. This was significant for two reasons. First, it frustrated the Chancellor's original plan of 'frontloading' the public spending cuts so that he could, in a context of rising growth, offer pre-election tax cuts in 2015 (Dolphin, 2011: 3). Second, it was the first time that the Chancellor conceded that his own original deficit and debt reduction targets would not be met (Osborne, 2011). As one commentator put it at the time, "the landscape is fundamentally transformed. A government that promised to eliminate the budget deficit by the next election has admitted that it will fail. It now says it needs another two years to meet its deficit target" (Landale, 2011).

This represented a key moment of transition in the Coalition's economic strategy. As has been outlined above, the Coalition's self-proclaimed *raison d'etre* had been to eliminate the deficit in one parliament. Osborne now faced a choice. On the one hand, he could stick to his original deficit reduction targets. This, however, would require very large spending cuts and tax increases in addition to those which had already been put forward in 2010. Alternatively, he could broadly stick with his current spending plans but accept that borrowing would remain much higher than had been initially hoped for. The Chancellor opted for this latter option. As the IFS put it, increased borrowing in 2011-12 was:

> not matched by an announcement of further austerity for the current parliament on top of what the coalition government had already set in place during its first six months in office – instead the government responded by pencilling in more spending cuts for the first half of the forthcoming parliament.
>
> (Emmerson & Tetlow, 2015: 13)

A year later in the December 2012 Autumn Statement, Osborne confirmed that he would stick to this revised approach. As a result, borrowing was expected to still be running at 5.2% of national income by 2014–15, almost three times the 1.9% that had been forecast in the November 2010 Spending Review (Emmerson & Tetlow, 2015: 22). Figure 5.2 below compares the projected scale of deficit reduction as outlined in the June Budget to the 'out-run' - i.e. the level of deficit reduction which was actually achieved over the parliament. As the graph shows, in the financial year 2011-12, the scale of fiscal consolidation failed to keep pace with the original deficit reduction plan and then levelled-out between 2012 and 2014. As Lee has written, between "2010-11 fiscal tightening had amounted to 1.5 per cent of national income, followed by a further 2.3 per cent during 2011-12. However, the realisation that a further acceleration in fiscal tightening might drive the economy into recession persuaded Osborne to loosen fiscal policy, with the result that fiscal consolidation was planned to be only 0.7 per cent of GDP in 2014-15 and 0.6 per cent in 2015-16" (Lee, 2015: 21).

Figure 5.2: Projected .v. Actual Deficit Reduction



Source: Adapted from: (Van Reenen, 2015: 3).[84]

From this we can conclude that between the Autumn Statements of 2011 and 2012, the Coalition did adopt a 'Plan B' in the sense that it retreated from its original 2010 timetable of deficit reduction. However, it is important to note two points. First, the 'levelling out' of the deficit after 2011-12 did not mean that Osborne had substantially reneged on the Coalition's original programme of spending cuts. Indeed, as the IFS pointed out, "virtually no net additional measures have been announced

[84] Original forecasts from the OBR.

since November 2010...instead the coalition government chose largely to stick to its originally planned pace of fiscal tightening and leave the additional cuts for after 2015" (Emmerson & Tetlow, 2015: 29). What Osborne *did* choose to do in 2011-2012 was to withstand imposing even greater - and politically difficult - spending cuts in the current parliament in order to meet his original fiscal programme (Wren-Lewis, 2015). Gamble is therefore correct to say that, "in 2012, faced with the prospect of a double dip recession in the UK and with no recovery in sight, Osborne did adopt a Plan B, easing up on austerity, and postponing many of the cuts in public spending to the next parliament" (Gamble, 2015b: 159). However, it is important to underline the point that this 'easing up' on austerity was not equivalent to a slowing of the pace of the 2010 spending cuts; indeed many of the deepest cuts to welfare, for example, had their biggest impact after April 2013 (Toynbee & Walker, 2015: 17). Rather, as Keegan has noted, "the stretching of budgetary consolidation into the future [did] not reflect deliberate policy decisions to ease the squeeze" (Keegan, 2014: 5). Instead it reflected low levels of economic growth, slowing tax revenues and a choice on the part of the Treasury to not introduce additional public spending cuts to meet the original 2010 targets. Similarly, as the IFS noted at the time:

> It is important to understand why the deficit hasn't fallen. It is emphatically not because the government has failed to impose the intended spending cuts. It is because the economy performed so poorly in the first half of the parliament, hitting revenues very hard.
>
> (IFS, 2014b: 3)

However, this acceptance of sustaining higher borrowing presented a political dilemma for the Coalition. During the phase of 'strategic positioning' and throughout the first two years of the parliament, Osborne had persistently emphasised the need to eliminate the structural deficit within one parliament. Failing to do so had been presented as the mark of fiscal irresponsibility. Indeed, in 2010, Osborne had argued that Darling's plans for cutting borrowing were too slow and would provoke a lending strike from international creditors which would pitch the economy back into a severe economic crisis (Wren-Lewis, 2015: 7). However, by 2013, "critics noted that [Osborne's] deficit reduction plan had ended up less ambitious than the one adopted by Alistair Darling" (Gamble, 2015a: 49). Whereas Darling had originally planned to cut the deficit by 33.9 per cent by 2013, Osborne had secured a smaller reduction of 24.3 per cent in the same timeframe. Indeed, whereas "in 2010 Osborne had predicted that net borrowing would be £37 billion in 2015-16, it was closer to £100 billon" (Toynbee & Walker, 2015: 87).

The key question for the Coalition was how it would now defend sustaining a large budget deficit given its previous narrative that this would lead to economic catastrophe. The answer was that in spite of retreating from its original targets, the Coalition retained a discursive commitment to austerity. The difference was that now the programme of further cuts was displaced into the next parliament, under the guise of a 'long term economic plan' (Lee, 2015: 23). The Coalition's strategy from 2013 onwards therefore sought to retain the focus on the importance of deficit reduction as the key dividing line between the Conservatives and the Labour Party. However, at the same time, the Coalition employed a range of discursive strategies to displace responsibility for the failure of Phase I and II of its economic programme. First, Osborne argued that the scale of the problem inherited from the previous Labour government was much larger than had initially been understood. For example, in a speech in September 2013 defending his government's record, Osborne stated that, "the economic collapse was even worse than we thought. Repairing it will take even longer than we hoped. But we held our nerve when many told us to abandon our plan" (Osborne, 2013b). In this way, the Coalition sought to present its failure to match its original 2010 targets not as the fault of the government but rather as an example of the enduring legacy of Labour's mismanagement of the economy. Second, the Coalition redefined the criteria by which to judge its fiscal record. For example, in the March 2013 Budget, Osborne stated:

> The deficit continues to come down. We have taken many tough decisions to bring that deficit down – and we will continue to do so. The deficit has fallen from 11.2 per cent of GDP in 2009-10, to a forecast of 7.4 per cent this year. That is a fall of a third. It then falls further to 6.8 per cent next year, 5.9 per cent in 2014-15.
>
> (Osborne, 2013a)

Rather than emphasising the non-negotiable imperative of eliminating the budget deficit in one parliament as he had done in the previous three years, the Chancellor now extolled the virtues of reducing it by half. Indeed, despite borrowing £100 billion more than had originally been anticipated in the 2010 Spending Review, the Chancellor presented his approach as embodying a "tough and credible fiscal policy" (Emmerson & Tetlow, 2015: 23; Osborne, 2013a). Third, the Chancellor sought to present the failure to meet his debt and deficit targets as the result of external factors, specifically pointing to "external inflation shocks, the Eurozone crisis and the ongoing impact of the financial crisis on financial conditions" (Osborne, 2013b).[85] Fourth - and perhaps most importantly - the Coalition retained and indeed intensified its attack on Labour as 'deficit deniers'. For example, in his 2013 Budget, Osborne said:

> I've also had representations at this Budget for measures that would add £33bn a year extra to borrowing on top of the figures I've announced. It's from people who seem to think that the way to borrow less is to borrow more. That would pose a huge risk to the stability of the British economy, threaten a sharp rise in interest rates

> and leave the burden of debts to our children and grandchildren. I will not take that gamble with the future of this country.
>
> (Osborne, 2013a)

As these four elements of the Coalition's 'Phase III' strategy suggest, although the deficit reduction programme had been delayed in policy terms, as a *discursive strategy* it retained a central place within the Conservative-led government's approach. For example, at the 2013 Conservative Party conference, Osborne announced a commitment to run a permanent budget surplus in the next parliament, a move which was confirmed in the March 2014 Budget. At a time when the Coalition was effectively abandoning its initial deficit reduction strategy in policy terms, discursively it was entrenching and embedding this narrative as the essential benchmark of economic competence. This is what Gamble means when he refers to "austerity as statecraft" (Gamble 2015a). The pattern and pace of deficit reduction is not simply the result of 'ideology' - for example the belief in a small state or a revitalised private sector - however strongly held these beliefs may or may not be held.[86] Rather, the austerity programme provided the Conservatives with an effective narrative with which to undermine the Labour opposition and to entrench its own position as the most credible custodian of the public finances. It was for this reason that appearing to stick to 'Plan A' whilst in practice postponing further spending cuts into the future ('Plan B') was so essential to the Conservative's strategy. Additionally, the failure of 'expansionary austerity' underlines the point that economic 'competence' and 'credibility' are not secured simply through the successful enactment of policy. Rather, 'credibility' - the benchmark of economic success - has to be constructed and defended through discursive mobilisation. In this respect, although the Conservative-led coalition failed on its own policy terms, in terms of its governing strategy it was highly successful.

[86] Although economic strategies are certainly conditioned by such considerations. See for example: Griffiths, 2015.

5.4 The failure of 'rebalancing': the return of privatised Keynesianism?

From May 2010 onwards the Coalition's economic strategy had been underpinned by a second, subsidiary discourse: the goal of economic 'rebalancing' (Berry & Hay, 2015; Froud et al., 2011).[87] It is important to distinguish analytically between this 'rebalancing' narrative and the Coalition's leading programme of deficit reduction because the 'rebalancing' discourse was underpinned by two distinct diagnoses of the structural weaknesses which underpinned the British economy. On the one hand, it advocated a 'rebalancing' of economic activity away from the public and towards the private sector (Pugalis & Bentley, 2013: 669). This was entirely compatible with and indeed complementary to the Coalition's austerity programme insofar as both discourses claimed that government spending 'crowds out' private economic activity and acts as a drag on economic growth. However, there was also a second component of the rebalancing discourse which focussed specifically on the need to secure a *sectoral and geographical* rebalancing of the British economy, away from financial services towards manufacturing and away from London and the South East and towards the ex-industrial regions (Berry & Hay, 2015b: 2; Gamble, 2012: 71). For example, in his first speech on the economy as Prime Minister, Cameron said, "our economy has become more and more unbalanced, with our fortunes hitched to a few industries in one corner of the country, while we let other sectors like manufacturing slide" (Cameron, 2010c). The Conservatives framed their economic strategy partly as

[87] The title of this subsection on the 'failure' of rebalancing should not be read as implying that a major programme of economic rebalancing was in fact attempted by the Coalition. As is emphasised throughout this chapter, whilst the Coalition discursively utilised the 'rebalancing' discourse its actual policy interventions do not suggest that it was seriously committed to this objective in practice. For example, infrastructure and transport spending per capita continued to be hugely skewed towards London and the South East relative to other regions throughout the 2010 - 2015 parliament. The key point is that when growth did return in 2013 it was delivered on the basis of violating the very 'rebalancing' principles which the Coalition had appealed to in the early formulation of its economic policymaking discourse.

an attempt to rectify this state of affairs. In 2010, for example, Osborne argued that a "recovery will only be sustainable if it is accompanied by an internal and external rebalancing of our economy: in other words a higher savings rate, more business investment, and rising net exports (Osborne, 2010a). This objective was paralleled by a critique of New Labour's economic legacy which went beyond the charge that it had borrowed and spent too much in the pre-crisis period. For example, Osborne argued that, "Britain has been failed by the economic policy framework of the last decade. We have to move away from an economic model that was based on unsustainable *private* and public debt" (ibid.). [88] In another speech, the Chancellor directly attributed blame for the 'imbalanced' state of the British economy to the previous Labour government by stating that the Conservatives would "avoid the mistakes of the past...we cannot rely on consumers alone for our economic growth, as we did in previous decades, and we cannot put all our chips on the success of the City of London, as my predecessors did" (Osborne, 2014c).[89]

The emergence of the 'rebalancing' agenda as an organising principle of the Coalition might have suggested that the new government was committed to affecting a qualitative transformation of the growth model which had underpinned the British state and economy throughout the New Labour period. There is clear documentary evidence that between 2010 and 2012, this 'rebalancing' discourse was incorporated into the Coalition's economic narrative and policy programme (Berry & Hay, 2015: 4; Craig, 2014: 118). However, as was argued with respect to the Coalition's deficit reduction strategy, it is important to distinguish analytically between the discursive commitment to a particular economic programme and the extent to which such a

[88] Emphasis added.

[89] Interestingly, this diagnosis resembled one critique of Britain's model of capitalism which had originally been advanced primarily by scholars on the centre-left of the political spectrum (Coates & Hay, 2001; Hutton, 2011; Marquand, 1988). Indeed, early iterations of the Coalition's 'rebalancing' agenda mirrored aspects of the argument that Britain's pre-crisis growth model had rested upon an unsustainable dynamic of 'privatised Keynesianism' as outlined in Chapter Two(Berry & Hay, 2015b: 3; Crouch, 2009; Hay, 2013b).

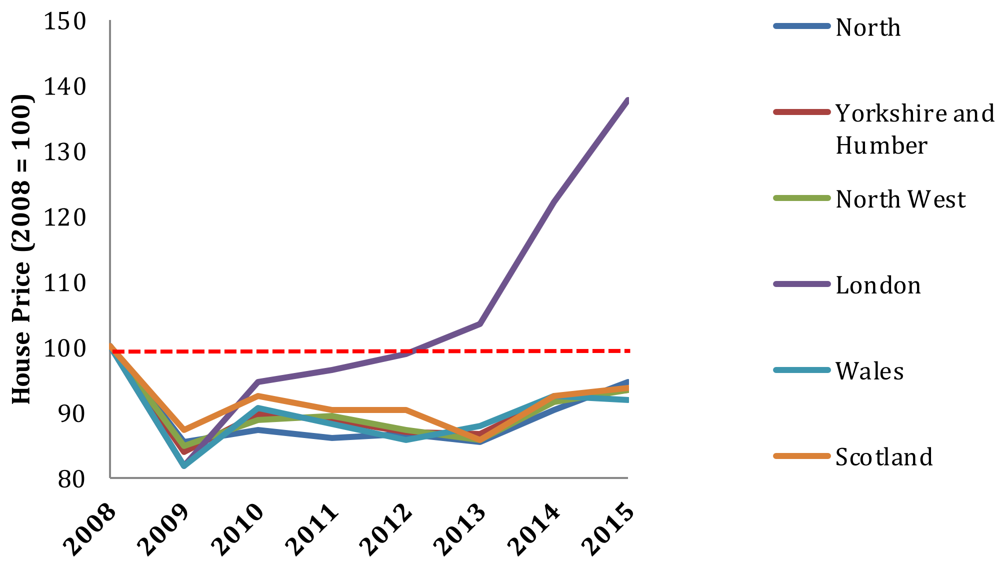
programme is in fact implemented in government. Insofar as the 'rebalancing' agenda did remain a policy narrative and explicit objective of the Coalition government, the evidence suggests that it was not achieved over the course of the parliament (Berry & Hay, 2015a, 2015b; Lee, 2015: 16).

This is evidenced by the composition of GDP growth in the Coalition period, in particular when a putative economic recovery began to take hold in spring 2013. In this year, GDP growth picked up for the first time in three years and registered at 1.7 per cent (Sargent, 2014: 395). This was followed by successive quarters of growth, such that by July 2014 the British economy had surpassed its pre-crisis level of output. However, if we look at the composition of growth over this period, it becomes clear that it was secured in a way that directly contravened key principles of the rebalancing agenda. First, rather than delivering growth through higher levels of saving and exports as Osborne had initially envisioned, Britain's economic recovery was largely based on higher consumer spending. As Sargent has noted, "the annual rate of growth of consumption spending by households in real terms had begun to exceed 1 per cent during 2012. This became 2 per cent in the first half of 2013, and 2.5 per cent in the third quarter" (Sargent, 2014: 138). This increase in consumption was the leading component of the nascent recovery, not least because consumer spending typically accounts for approximately two-thirds of GDP (Keegan, 2014: 128). As a result, rising household consumption accounted for slightly more than half of the growth in this period (Sowels, 2014). The economic recovery became entrenched in 2014, "with quarterly growth averaging 0.7 per cent through the year and 2.6 per cent for the year as a whole" (Goodwin & Beck, 2015: 74). However, consumer spending again remained the biggest contributor to GDP, registering "an annual rise of 2.3 per cent [which was] was the strongest since 2007" (*ibid.*). From 2013 onwards, the Coalition predictably welcomed this rise in economic activity and drew attention to increased growth as evidence that the 'long term economic plan' was working. However, the fact that this was not being delivered through a 'rebalancing' of the economy away from consumption towards savings was quietly ignored.

Second, investment in housing re-emerged as a key driver of growth and consumer confidence from 2013 onwards. Indeed, taken alongside rising levels of consumption, increased household investment[90] accounted for two thirds of the increase in GDP in 2013 (Bean, 2014: 2). Specifically, throughout 2013 housing investment increased by 10 per cent whilst house prices increased by 22 per cent (Bean, 2014: 2; Toynbee & Walker, 2015). However, the rapid increase of house prices taken in the aggregate conceals the uneven nature of this growth across the UK's regions. For example, as Figure 5.3 shows, whilst house prices in London had increased by 22 per cent above their pre-crisis peak by March 2014, house prices across the North of England, Scotland and Wales remained well below their 2008 levels. As one housing economist put it at the time, "the gap between house prices in London and the rest of the UK is the widest it's ever been, both in cash and percentage terms" (Nationwide, 2014: 1). As such, the return of rapid house price inflation not only represented a failure to 'rebalance' the British economy away from the trajectory of asset-price inflation which had been in place in the pre-crisis period; it also exacerbated pre-existing regional differences and further entrenched the unevenness of the Coalition's economic recovery.

[90] This includes both the construction of new households and the value added in the facilitation of housing transactions (Bean, 2014: 2).

Figure 5.3: Regional House Prices, 2008 - 2015



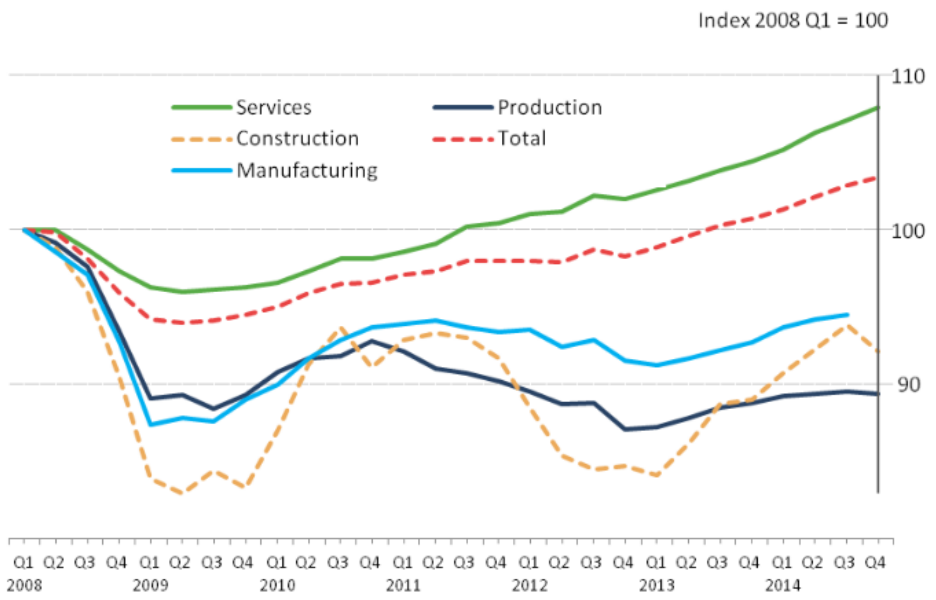
Source: Nationwide House Price Index.[91]

Third, this continuation of pre-crisis trends was also reflected in the sectoral composition of growth between 2010 and 2014. Whilst Osborne had initially anticipated an increase in net exports - i.e. an increase in the contribution of net trade to the composition of GDP - this was not delivered in office. Rather, the trade balance deteriorated throughout the parliament, with a total trade deficit of £34.8 billion recorded in 2014 (ONS, 2014c). Since the trade balance forms the largest component of the current account, "by the third quarter of 2014 the current account deficit registered at six per cent", which constituted "the joint largest such deficit since ONS records began in 1955" (Lee, 2015: 26). This trend became increasingly pronounced from 2013 onwards as Sterling appreciated relative to other currencies (Perraton, 2015). One key factor behind the negative trade balance was that the manufacturing sector had not been revitalised under the Coalition as had been promised. This was significant from the perspective of the balance of payments because manufacturing typically contributes around half of British export earnings (Keegan, 2014: 91). However, by the

[91] Select Regions. Not seasonally adjusted.

end of 2014 the manufacturing sector represented a *smaller* component of overall output (at 9.7 per cent) compared to when the Coalition had assumed office (Berry & Hay, 2015a). As this suggests, Osborne's goal of driving GDP growth through an increase in net exports did not come to fruition. Rather, as Figure 5.4 demonstrates, relative to 2008 - and throughout the Coalition's time in office - industrial production failed to surpass pre-crisis levels of output. Instead, the recovery from 2013 onwards was led by the service sector, again underlining the point that Osborne's 'rebalancing' of the British economy had not been delivered. Based on the above evidence, we can conclude that although economic growth did increase from spring 2013 onwards, this was not delivered through a successful 'rebalancing' of the UK economy (Lee, 2015: 25). Growth remained heavily reliant upon consumption, Britain's long-standing trade deficit was not reduced but rather widened, and business investment - which had been forecast to contribute to 56 per cent of GDP growth in 2015 but which was subsequently revised down to 39 per cent – remained unimpressive (Weldon, 2013a).

Figure 5.4: Sectoral Composition of GDP Growth, 2008 - 2014



Source: Office for National Statistics: (ONS, 2015c).[92]

On this basis, a number of observers have argued that from 2012 onwards, the Coalition effectively secured an economic recovery through resurrecting Britain's pre-crisis growth model of 'privatised Keynesianism'. For example, Gamble has written:

> When the recovery failed to arrive spontaneously in 2012 the Government reverted to...a version of privatised Keynesianism, reliant upon loading more and more debt upon citizens...the voters who had previously been told that everyone, including the state, should live within their means were now being urged to get their credit cards out again…although many were uneasy about the return of the previous growth model, no one had any very clear alternative.

(Gamble, 2015b: 165)

Similarly, Hay wrote:

> The Coalition has found itself resorting to the pump priming of mortgage-debt. This, it need hardly be pointed out, is a most desperate and dangerous move – with lots of downstream risk and very little, if any, substantive gain to date or in prospect. This is privatised Keynesianism mark II.

(Hay, 2013:82)

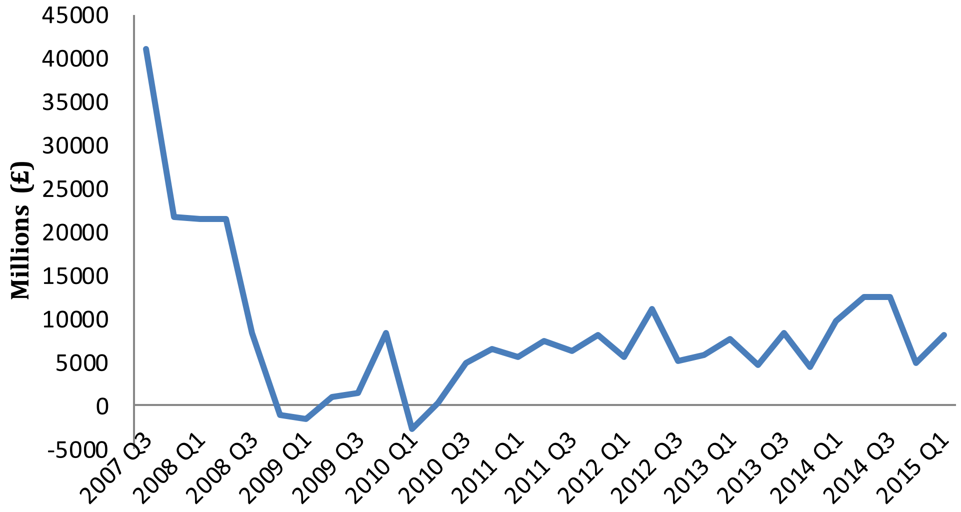
There is much to commend in these analyses. The broad shape of the economic recovery from 2013 onwards certainly suggests that the Coalition had not successfully established a 'new economic model', but rather had reverted to facilitating old patterns of growth which had been in place in the pre-crisis conjuncture. This is attested to by a

[92] GDP output growth relative to 2008 by industrial sector.

number of indicators. As mentioned above, real wages had undergone their longest sustained decline in modern history, with real median wages falling by between 8 and 10 per cent between 2008 and 2014 (Blanchflower & Machin, 2014: 1). As was established in Chapter Two, stagnant real median wages had been one of the crucial preconditions of Britain's pre-crisis growth model, in particular from 2003 – 2007, as this created an incentive for low-to-middle income households to draw on credit to fuel current consumption (Berry & Hay, 2015b: 3; Lansley, 2011; Montgomerie, 2007). As such, the sustained decline in real wages between 2008 and 2013 represented a continuation and indeed an intensification of this wage-deflationary dynamic under the Coalition (Green & Lavery, 2015). However, as was outlined above, rising household consumption became a crucial driver of growth between 2012 and 2014. Indeed, between 2012 and 2013 household consumption rose by around £10.6 billon, but household incomes rose by less than £2.0 billion (Weldon, 2013b). If rising incomes didn't explain this rise in consumption, then what did?

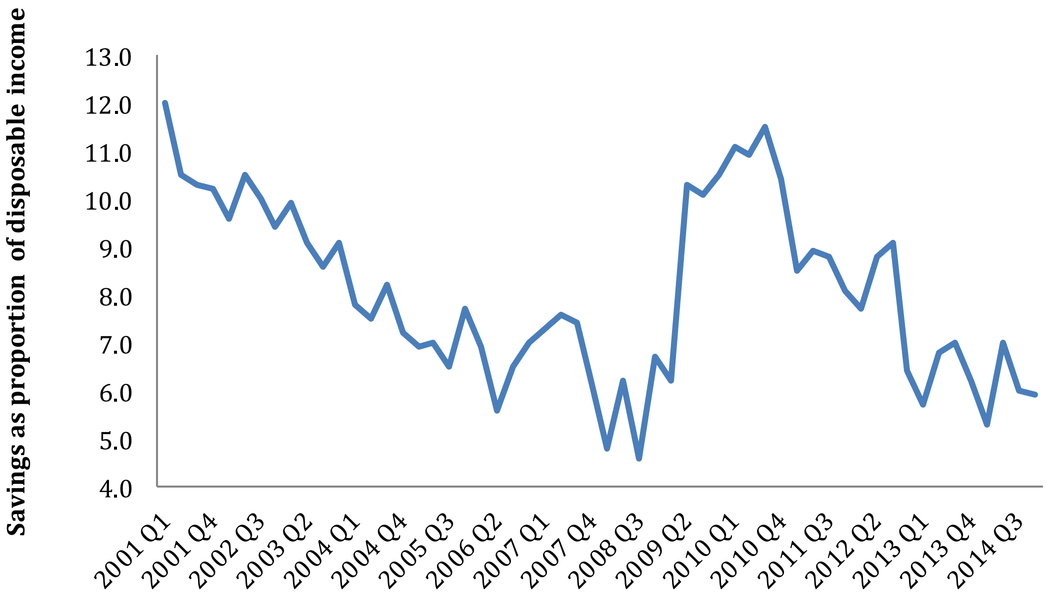
At this point, those arguing that the Coalition re-established a variant of 'privatised Keynesianism' might argue that the same dynamic which had driven consumption growth throughout the pre-crisis period - namely rising private indebtedness fuelling consumption and economic growth - had re-emerged between 2013 and the end of 2014. However, this argument needs to be qualified somewhat in light of three observations. First, as was outlined in Chapter Three, one of the key channels identified by the privatised Keynesian conception was the role of Housing Equity Withdrawal (MEW) in facilitating increases in consumer spending. As Berry and Hay put it, "the key distinction of ALGM analysis…is probably the emphasis placed on the housing market as a source of funds for private consumption" (Berry & Hay, 2015b: 3). However, as the British economic recovery began to take hold from spring 2013 onwards, mortgagers were not borrowing against their homes to fuel current consumption. Rather, in the middle of that year households injected £15.4 billion of equity *into* their properties as they took advantage of low interest rates to pay-off mortgage debt (Stewart, 2013). This dynamic of *negative* equity withdrawal continued through the economic recovery, such that by the first quarter of 2015 there had been *28 successive quarters of net injection of equity into houses*, taking the total to £313bn since June 2008 (Collinson, 2015). What this suggests is that in contrast to the pre-crisis period, HEW was not fuelling current consumption to a significant extent under the Coalition; on the contrary in the aggregate households were withholding on current consumption in order to reduce their exposure to mortgage debt. One of the key drivers of 'privatised Keynesianism' Mark I was therefore not re-established during the economic recovery of 2013. Second, there was no surge in the household debt over this period: household debt-to-income ratios remained below their pre-crisis peak at approximately 140 per cent of income between 2010 and 2015. Whilst this remained high relative to other advanced economies, the increase in growth in 2013 was not correlated with a sudden increase in household indebtedness. This suggests that another factor was behind consumption growth in this period. Third, in line with the above observations, data from the ONS shows that there was not a significant increase in net loan acquisitions between 2012 and 2014. Net loan acquisitions account for the value of new loans which are taken-out by households (for example through mortgages) minus the value of loan repayments which households make in a given timeframe. As can be seen from Figure 5.5, whilst net loans to households was extremely high immediately before the crisis in 2007, there was not a net lending spree concentrated on households during the 2013 - 15 economic recovery. Rather, the volume of net loans taken out by households up to the end of 2014 did not significantly surpass its lowest ebb in this period.

Figure 5.5: Net Loan Acquisitions 2007 - 2015



Source: Office for National Statistics. National Accounts (ONS, 2015e).

Figure 5.6: Savings Ratio 2001 - 2014



Source: Office for National Statistics. National Accounts (ONS, 2015e).

What, then, explains the increase in household consumption at a time of real income stagnation? The answer lies partly with what is termed the ‘savings ratio’. This is the proportion of disposable (after-tax) income that households save in the aggregate. As can be seen in Figure 5.6, before the crisis of 2007-8, the savings rate fell steadily as households took advantage of low commercial lending rates and increased their borrowing in order to gain access to the housing market. However, in the period of uncertainty which followed the 2008 financial crash, households rapidly 'deleveraged' - they paid down their debts in order to improve their net financial positions - with the result that from 2008 Q3 - 2010 Q3 the savings ratio increased rapidly, rising to 11.5 per cent by 2010. This dynamic had of course been one of the key drivers of the recession, as increased savings by the household sector reduced consumption and temporarily constrained aggregate demand in a context of increased credit constraints and widespread uncertainty. As Sargent notes, households "were stepping up their efforts to improve their financial position, by paying off debt or adding to their assets. The flow of savings directed towards these two financial objectives together rose from £20.7 billion in 2008 to £75.0 billion in 2012 in absolute terms" (Sargent, 2014: 395). The result was that by 2012-13, households had significantly improved their net financial positions: household financial liabilities declined from 1.7 times disposable income in 2008 to 1.4 times in 2012 (ibid.). One result of this was that as the Coalition entered Phase III of its economic strategy, households were in a position to draw upon their savings - or at least could choose to save less of their disposable income - in order to increase their current consumption levels (Hardie & Wales, 2013: 2). As the graph shows, this was exactly what happened: the savings ratio declined between 2010 and 2014. It was this, rather than massively increased household borrowing, which underpinned consumption and boosted the economic recovery in the second half of the parliament.

What does this imply for the argument that the 2013 economic recovery was fuelled by a renewed phase of 'privatised Keynesianism'? Did the Coalition effectively re-establish the growth model which had been in place under New Labour throughout the pre-crisis conjuncture? On the one hand, as we have seen the Coalition certainly did not bring about a 'new economic model' as Osborne had envisioned in 2010. The recovery was consumption-led, business investment remained poor and Britain's net trade position deteriorated. In this sense, the basic structure of Britain's model of capitalism endured (Gamble, 2012: 23; Hay, 2013b). In addition, as will be shown below, for all the talk of 'rebalancing', the Coalition was in fact attempting to return the British economy to a situation where high loan-to-value ratios in the mortgage credit market would become once again a key driver of economic growth. However, the specific mechanisms which had been in place in the 2000s and which had underpinned the first phase of privatised Keynesianism were not fully re-established during the economic recovery either: HEW was not driving consumption, household debt-to-income ratios remained relatively flat and households had not increased their net borrowing substantially throughout the Coalition period. Instead, the increase in household consumption was fuelled largely through the decline in the savings ratio from 2010 to the end of the parliament.

Despite this, there are two reasons why the 'privatised Keynesianism' analogy remains a useful analytical tool for analysing the trajectory of the British economy in the post-crisis conjuncture. First, the running down of the savings ratio is not a dynamic which can continue indefinitely. As can be seen in Figure 5.6, the savings rate had fallen by 2014 to 2006 levels, two years before the GFC first broke. This suggests that the 2013 recovery rested on weak foundations and that its basic trajectory emulated pre-crisis trends. Indeed, in this period the Bank of England increasingly recognised that the shape of the Coalition's economic recovery represented a potential threat to financial stability. For example, in February 2014 the Governor of the Bank argued that, "the recovery is neither balanced nor sustainable. A few quarters of above trend growth driven by household spending are a good start but they aren't sufficient for sustained momentum ... wage growth remains weak, and the household savings rate is likely to fall further" (Carney, 2014: 4). The economy's capacity to drive consumption through collapsing household savings was all but exhausted by the end of the parliament. There were two possible pathways out of this scenario. The most optimistic assessment was that as the recovery became established, household income growth would increase to such an extent that consumption growth could continue apace whilst the savings ratio would not decline any further (as rising incomes would allow for increased expenditure without compromising savings). Clearly, predicting the trajectory of the British economy between 2015 and 2020 is beyond the scope of this thesis. As such, the figures cited below remain indicative. That said, detailed projections of income growth from 2015 - 2020/1 suggest that a surge in median income growth is highly unlikely in the near future. Rather, one substantial study produced by the Resolution Foundation noted that:

> A low income household in 2008-09 ... had an income of £10,600 a year. By 2020-21, the forecasts predict that a similar household will have an income of just £9,000 a year (in 2008-09 prices), a real-terms decline of 15 per cent... median income falls from £22,900 per year in 2008-09 to £22,100 in 2020-21, a real-terms fall of 3 per cent. This would return median income to a level last seen in 2001, two decades earlier, again an unprecedented period of no income gain.

(Resolution Foundation, 2012: 76)

In a context of large welfare cuts, weak productivity growth and stagnant low-to-middle incomes, the prospect of a producing a wage-led recovery looks to be an unlikely pathway out of the current conjuncture. This opens-up the second potential pathway out of the low savings rate conundrum: a further increase in private indebtedness in order to fuel further consumption growth. This would represent a return to the classic model of 'privatised Keynesianism'. Again, the figures here are projections and so must be treated with caution. However, the OBR - the government's own fiscal watchdog - has predicted that by 2019 the household debt-to-income ratio will increase to 182 per cent (OBR, 2014a: 76). This exceeds the household debt-to-income ratio of 169 per cent which was established at the height of the credit boom in the pre-crisis conjuncture. In relation to income growth, one study demonstrated how on the OBR's own figures "while wages are forecast to grow at 16 per cent over the period [from 2015 - 2019], total household debt is forecast to grow 2.7 times as fast at 42 per cent" (TUC, 2015). In addition, the same study predicted that unsecured debt was "forecast to grow 4.5 times as fast as wages – by 70 per cent between 2015 and 2019...[reaching] an average of around £29,000 of unsecured debt per household by 2019" (ibid.). In other words, income growth is forecast to fall well behind rising levels of private indebtedness, suggesting that the savings ratio will either remain at its current low level or decline even further. On these forecasts, the second pathway out of the current conjuncture looks more likely.

Help-to-Buy: State Intervention and the delayed return of 'privatised Keynesianism'

As the above analysis suggests, claims that the 2013 economic recovery was driven by a re-emergence of Britain's pre-crisis 'privatised Keynesianism' growth model were somewhat premature. These analyses miss some of the key differences which remained - particularly in the early stages of the economic recovery - between the pre- and post-crisis conjunctures. However, the evidence does suggest that after a brief interregnum under the Coalition, a renewed wave of 'privatised Keynesianism' is likely to re-emerge in the 2015 - 2020 parliament. There is another sense, however, in which we can argue that the Coalition at least attempted to re-establish the conditions for a renewed wave of 'privatised Keynesian' growth in the post-crisis conjuncture. This is evidenced in the range of 'credit-easing' policies which emerged in this period. There is not sufficient space to overview all of these policies in detail here.[93] However, a brief review of one such policy intervention - 'Help to Buy' - serves to underline the

[93] For a review of 'credit easing' policies, see (Joyce et al., 2012).

way in which the Coalition actively sought to re-establish some of the key features of Britain's pre-crisis growth model in the post-crisis conjuncture.

The key objective of Help to Buy was to respond to the fact that lenders were reluctant to advance high loan-to-value mortgages to potentially risky (particularly first-time) buyers in the aftermath of the financial crisis. By 2013 mortgage lending had fallen 40% below its pre-crisis peak whilst the number of property transactions had dropped by 60%. High loan-to-value mortgages, which had accounted for just short of 10% of all loans in Q2 2007 had dropped to below 2.5% in Q2 2009 and remained there until late 2013. In other words, in a context of increased economic uncertainty, mortgage lenders were demanding much larger deposits from potential borrowers. As a result, it would have taken nineteen years for someone on an average salary to afford the average first time buyer deposit. This acted as a considerable barrier to entry for first time homebuyers: indeed 62% reported that punishingly high deposit rates acted as the principal barrier to accessing mortgage finance (Alakeson et al., 2013).

Help to Buy was introduced in response to this perceived market failure. It involved two dimensions: the equity loan scheme and the mortgage guarantee scheme (HM Treasury, 2013). The equity loan scheme – introduced in 2013 and rolled-out until 2020 (Stacey, 2014), required that borrowers advance 5% of the value of the mortgage in a deposit. This was far lower than the average 'market rate' which in July 2012 stood at 19% (BBC News, 2012). The government then provides a loan (interest free for the first five years) which covers up to 15% of the remaining deposit. The Mortgage Guarantee Scheme conversely represents an insurance policy for mortgage lenders. Whilst the borrower again is expected to advance a 5% deposit, the government guarantees up to 15% of the remaining deposit in case of default. The goal of these two mechanisms is to encourage mortgage lenders to advance higher loan-to-value ratios, thereby allowing greater access to mortgage credit for those who can afford monthly repayments but who could not afford high deposits.

Crucially, as articulated in George Osborne's correspondence with the Treasury Select Committee, the explicit goal of the policy is to return to a situation where median loan-to-value ratios are at the level which prevailed in the pre-crisis period (Osborne, 2014d: 2). In other words, although net lending to households and overall household debt remained below their pre-crisis peaks in 2013, the Coalition nonetheless pursued a range of policies which sought to counteract this trend by widening access to mortgage finance. Within twelve months, Help to Buy had had a considerable impact in both the mortgage and construction markets. In 2014, first time buyers accessing mortgage finance had increased by 70% relative to 2008, with a significant proportion of these mortgages resulting from the Help-to-Buy policy (Barrett, 2015). Partly as a result of this, the average cost of a deposit fell by over 7% in 2014. In addition, the increased demand for new-build properties contributed to a boost to the construction industry, with 50,000 new homes calculated to have been built up to 2015 as a result of Whitehall support (Armitage, 2015).

The relative merits and risks embodied in Help to Buy need not concern us here. What is of significance is that the policy represents a clear instance of state intervention to widen access to mortgage credit and to therefore re-establish one of the key drivers of growth which had been in place throughout the pre-crisis conjuncture. However, as outlined in Chapters Two and Four, the provision of mortgage credit had in this period been left to market actors in the sense that benign economic conditions - including a glut of credit and high levels of demand for mortgage finance - had generated high levels of credit expansion. This was reflected in rapid spikes in loan-to-earnings ratios, which increased from 3.14 in 1998 to 5.86 in 2007 (Chamberlin, 2009: 31). As a result, the provision of mortgage credit increased substantially throughout this period, to the extent that between 1997 and 2007 a record £1.2 trillion of new mortgage loans were made (R. Martin, 2010: 41).

With Help to Buy, the state now bears a considerable risk in guaranteeing new mortgage loans: £3.5 billion of the government's capital budget was set aside to cover equity loans over the first three years of the policy and £130 billion was made available to fund the mortgage guarantee scheme (HM Treasury, 2013). While house prices continue their upward trajectory, the scheme will help to generate additional revenue for the government; however, in the event (which seems increasingly likely) that the housing market's upward price trajectory slows or even reverses, it will be taxpayers who ultimately bear the brunt of any defaults. This prospect reinforces the political incentive to secure increasing house prices, further entrenching the (now explicitly state-backed) logic of credit indiscipline so central to the UK's growth model.

In light of the Help-to-Buy example and the above analysis of the Coalition's failed 'rebalancing' programme, we can draw four conclusions in particular. First - contrary to the professed objective of Osborne to rebalance the UK economy away from debt and consumption and towards savings and exports - the Coalition did not initiate a radical transformation of Britain's growth model in office. In this respect, those who have argued that the 2013 economic recovery resembled a return to the fundamentals of Britain's pre-crisis growth model are broadly correct. However, second, it is important to also note that the key mechanisms which had underpinned Britain's pre-crisis growth model - MEW, rising household debt-to-income ratios and increased net lending to households - were not key drivers of the economic recovery in the final two years of the Coalition's period in office. The *sui generis* nature of the economic crisis had precipitated a rush into liquidity for the household sector between 2008 and the end of 2010. In the early years of the economic recovery, this provided an alternative reservoir for consumption expenditure which households duly drew upon without relying upon increasing their personal debt levels. However, by 2014 this alternative source of consumption had been largely exhausted. Third, it is consequently better to view a 'privatised Keynesian' dynamic as *emergent* out of the framework which the Coalition had established in the post-crisis conjuncture rather than already established in this period. In other words, after a brief interregnum, of a renewed wave of 'privatised Keynesian' growth looked likely to take hold again in the 2015 to 2020 parliament. Fourth, despite the fact that the economic recovery was not driven in the first instance by enhanced household indebtedness, we can identify - in Help to Buy amongst other policies - deliberate attempts on the part of the government to re-establish the conditions for a second round of private debt-led expansion. As such, despite its professed commitment to 'rebalance' the British economy, the Coalition in fact effectively re-established the conditions for a renewed wave of 'privatised Keynesianism' and a return to the finance-led growth model which had been in place under New Labour.

5.5 Conclusion

In the previous chapter, it was argued that New Labour established a 'hybrid' regime of development which effectively fused together a finance-led accumulation strategy with a 'One Nation' hegemonic project. Whilst the former advanced the further neoliberalisation of the British economy, the latter ensured that a (limited) range of material concessions and symbolic rewards were channelled to strategically significant sections of the social base. New Labour's economic credibility, its governing legitimacy and the relatively stable phase of economic expansion it presided over were all dependent upon the successful combination of these two logics of social and development throughout the pre-crisis conjuncture. This chapter has turned to the 'post-crisis conjuncture' and has isolated one central element of the Coalition's political economy - its economic strategy – in order to examine the extent to which it 'broke' with New Labour's political economy. In order to do this, two research questions were set-out in the introduction to this chapter:

1. What were the key features of the Coalition government's economic strategy and how did it evolve over time?
2. Can we identify a re-emergence of 'privatised Keynesianism' in the post-crisis conjuncture?

With respect to the first question, a number of conclusions can be drawn. First, the Coalition's economic strategy ostensibly rested upon two distinct objectives. The first was to secure *deficit reduction* through large spending cuts as opposed to tax increases. The second was to secure a sectoral and geographical *rebalancing* of the British economy. It has been argued that in each case we need to distinguish analytically between the strategic deployment of these narratives by the Coalition and the actual policy interventions which the government made in office. In each case, we have seen that policy implementation has often been in tension with the Coalition's stated economic objectives. With respect to the objective of deficit reduction we saw how the original 2010 fiscal consolidation targets were effectively abandoned from 2012 onwards; in terms of rebalancing we saw how the imbalanced nature of economic growth was quietly ignored when the recovery began to take hold in 2013. This underlines the key point that statecraft – the goal of winning elections and retaining power once in office – strongly conditioned the Coalition's economic policy in office. Whilst this ensured that the discursive emphasis on the need for deficit reduction and rebalancing remained central to the Conservative's 'framing' of its economic strategy, this did not preclude the pragmatic abandonment of central aspects of both approaches at key strategic moments.

Second, and related to this first point, it is important to acknowledge that the Coalition's economic strategy was not fixed or static. Rather, it evolved over time in response to political developments and to policy failures. One way to periodise the development of the Coalition's economic strategy is therefore to identify distinct 'phases' which corresponded to shifts in the government's strategic orientation as its economic policy encountered a range of different socio-political barriers. In this regard, the roots of the Coalition's economic strategy were traced back initially to Cameron's period as leader of the opposition. In this period, the Conservative leadership moved from an economic strategy of *policy emulation* to one of *differentiation*, as it sought to appropriate the mantle of economic competence from the New Labour government. Once in office, the Conservative-led government's economic strategy then advanced in three distinct phases. First, between May and October 2010, the Coalition pursued a policy of *strategic positioning* where it sought to entrench the narrative that the government was 'clearing-up Labour's mess' by committing to an immediate and rapid programme of deficit reduction. Second, by October 2010, the Coalition moved into a phase of *implementation* wherein departmental expenditure limits were cut and the austerity programme began to take effect. However, by December 2012 this phase had ran aground, as growth and tax revenues stagnated and deficit reduction was thwarted. As a result, between December 2012 and December 2014, the Coalition abandoned its commitment to 'expansionary austerity' and moved into a third phase of its strategy by effectively adopting a 'Plan B', giving-up in the process the original deficit reduction targets by postponing further spending cuts into the future.

This again underlines the key role that *strategic* considerations play in the formation of economic policy. The state does not just act as a 'relay mechanism' for external pressures within society as in some crude instrumentalist accounts; nor does it automatically reproduce the conditions for continued accumulation as in some crude structuralist accounts of the capitalist state (Althusser, 2014). Rather, policymakers have the capacity to choose between a range of different possible strategies in pursuit of their political objectives (Bertramsen et al., 1991: 94). The coherence, unity and ultimate success of the selected strategy, however, is not pre-given: these must all be achieved and constructed through strategic action and perpetual state intervention. As such, the contingent choices of state managers and the unanticipated consequences of policy action are themselves often constitutive features of emergent growth models, which in turn simultaneously constrain and enable future strategies and patterns of state intervention. It is for this reason that the chapter emphasises the *politics* of the formation and development of the Coalition's economic strategy. For example, in 2012 Osborne *could* have yielded to pressure from his backbenches and from some leading sections of the business community to increase the scope of the spending cuts to meet his original deficit reduction targets. However, he did not. This choice could be seen as responsible for a series of consequences – not least the re-emergence of modest economic growth a year later – which profoundly reshaped the trajectory of British politics in the subsequent period.

With respect to research question two, the analysis suggests that those arguments which claim that economic recovery in spring 2013 was driven by a renewed phase of 'privatised Keynesianism' need to be qualified somewhat in light of new evidence. Whilst the Coalition failed to rebalance the British economy towards increased exports and business investment, this does not mean that it seamlessly returned the British economy to the growth model which had been in place in the pre-crisis period. Many of the key drivers of 'privatised Keynesianism' Mark I – high levels of equity withdrawal, rapidly increasing household indebtedness and high levels of net lending to households – were simply not in place during the initial stages of the economic recovery. Rather, the consumption-led recovery was largely due to the temporarily boosted 'savings ratio' – a legacy of the deep recession which had preceded the return to growth – the decline of which provided a temporary boost to consumption in the second half of the parliament. As such, the Coalition period is perhaps better viewed as an *interregnum* period between New Labour's pre-crisis model of privatised Keynesianism and a probable wave of renewed private debt-led growth in the 2015 to 2020 parliament. At the same time, however, whilst being ostensibly committed to a 'rebalancing' of the British economy, the Coalition initiated a programme of sustained state intervention in the mortgage credit markets from 2013 onwards in the form of its Help to Buy policy. This suggests that in terms of its policy orientation the Coalition did very much actively seek to re-establish some of the key features of Britain's pre-crisis growth model in the form of high (now state-backed) loan-to-value ratios. In the above respects, we can conclude that the Coalition did effectively re-establish the conditions for a renewed wave of 'privatised Keynesian' growth in Britain, albeit after a significant time lag and with some minor modifications.

However, in an important sense, it could be said that the Coalition's political-economic strategy did embody a profound break with the 'hybrid' regime of development which had been established under New Labour. As will be argued in the following chapter, the Coalition's deficit reduction programme played a key role in conditioning and delimiting the kind of legitimation strategies which it could pursue in office. As was argued in Chapter Four, New Labour's governing strategy had rested upon increasing public expenditure and on redistributing a significant portion of state revenues towards the social base. However, the Coalition's economic strategy rendered such an approach untenable in the post-crisis conjuncture. Instead, we can identify under the Coalition the emergence of a distinctive 'two nations' legitimation strategy or 'hegemonic project' which sought to build upon existing social antagonisms in order to secure support of more limited sections of the social base. This shift in strategy represents an area of profound change relative to the model of development which had been in place throughout the pre-crisis conjuncture. We shall turn to this second dimension of the Coalition's political economy in the following chapter.

6. The Coalition's 'Two Nations' Hegemonic Project

> *'One Nation' strategies aim at an expansive hegemony in which the support of the entire population is mobilized through material concessions and symbolic rewards...in contrast, "two nations" projects aim at a more limited hegemony concerned to mobilize the support of strategically significant sectors of the population and to pass the costs of the project to other sectors.*
>
> (Jessop, 1990: 211)

6.1 Introduction

In Chapter Four it was argued that New Labour's political economy embodied a 'hybrid' regime of social and economic development. This is because it rested upon two analytically distinguishable modes of state intervention which operated in distinctive ways throughout the pre-crisis conjuncture. On the one hand, New Labour's approach was underpinned by a finance-led accumulation strategy which simultaneously relied upon and deepened the neoliberalisation of the British economy. On the other hand, New Labour's political economy was organised around a distinctive 'One Nation' legitimation strategy or 'hegemonic project' through which it channelled material concessions and symbolic rewards to the social base. This dimension of the New Labour project was driven by a series of political considerations, including internal party pressures, electoral calculations and a residual commitment to some redistributivist social goals. In accordance with this political orientation, New Labour substantially boosted spending on public services - in particular on health and education - which resulted in substantially increased levels of public sector and state-supported employment particularly across the ex-industrial regions (Tomlinson, 2012c). Additionally, this dynamic was flanked by a series of (often covertly employed) redistributive social policies which channelled resources to low-to-middle income households. These policies played a key role in reducing relative poverty, constraining the growth of income inequality and mitigating the uneven development of 'Anglo-liberal' capitalism in the pre-crisis conjuncture (Hay, 2013c; R. Joyce & Sibieta, 2013). It was for this reason that New Labour's political economy was characterised as a 'hybrid' regime of social and economic development: whilst the neoliberalisation of the British economy continued apace under Blair and Brown, this dynamic was complimented and sustained by an *expansion* of state intervention and a *rolling-out* of regulatory state capacities at a variety of different spatial scales (Howell, 2015: 3).

The basic aim of this thesis is to determine the extent to which the Coalition government's political economy represented a *continuation of* or a *rupture with* this hybrid regime of development. The extent to which institutional or policy change can be identified of course depends on which policy area or institutional complex one isolates in ones' analysis (Marsh, 2010: 228). In this respect, the previous chapter focussed upon the evolution of the Coalition's economic strategy. It concluded that by 2014, the Coalition had effectively re-established the conditions for a renewed wave of 'privatised Keynesian' growth in Britain, albeit after a period of transition and with some minor modifications (Gamble, 2015b: 165; Green & Lavery, 2015; Hay, 2013; Grimshaw, 2013; Montgomerie & Büdenbender, 2015). However, as was argued in the previous chapter, the re-emergence of Britain's pre-crisis growth model took place within a substantially altered macroeconomic context within which the politics of austerity and public sector retrenchment now predominated. This chapter will focus on the ways in which the ascendancy of the Coalition's austerity programme limited the range of *legitimation strategies* which it could deploy in government. As such, the chapter will examine the extent to which the Coalition 'broke' with the second element of New Labour's 'hybrid' political economy – its 'One Nation' hegemonic project. In order to perform this task, the chapter will briefly re-visit the concept of hegemonic projects as outlined in Chapter Three before asking the following questions:

1. Did the Coalition government deploy a distinctive 'hegemonic project' in the post-crisis conjuncture?
2. What form did this 'hegemonic project' take?

The principal argument will be that whilst the Coalition government effectively re-established Britain's pre-crisis growth model, *it broke in important ways with the 'One Nation' hegemonic project which New Labour had deployed in the pre-crisis conjuncture.*[94] In its place, the Coalition advanced a distinctive 'two nations' hegemonic project which sought to build a limited but durable base of support for further public sector cuts, deficit reduction and welfare retrenchment in the future. This 'two nations' project rested upon the construction and entrenchment of what I term 'moralised antagonisms' between relatively 'privileged' and 'subordinate' social groups. The chapter offers a case study of two policy areas in order to substantiate this claim empirically. Specifically, it looks at the relation between *welfare recipients and real wage decline amongst in-work households* and the relationship between *public and private sector workers* respectively. In each case, emphasis is placed on the way in which the Coalition government constructed a range of novel distributional trends which emerged in the immediate post-crisis period in order to build a limited but durable base of support for its programme of social, political and economic restructuring. The chapter then concludes by relating the implications of this analysis to the broader argument of the thesis.

[94] Whilst the argument here is that there was definite shift in the legitimation strategy deployed by the Coalition relative to New Labour, it is important to note that there is no *necessary* reason why a change in government should lead to change in the legitimation strategy which is pursued by that government. For example, in its pre-election Budget in March 2010 the Labour Party committed to spending cuts from 2011 onwards which Darling described as the 'toughest in decades'. Had the Labour Party secured electoral victoryin 2010 and had followed through on this commitment, this would have severely constrained the legitimation strategies which it could have subsequently pursued in office. Conversely, if the Party had argued for ongoing counter-cyclical spending this would have cleared the ground for a distinct legitimation strategy.

6.2 Growth models and hegemonic projects

Throughout this thesis, a legitimation strategy or 'hegemonic project' has been defined as a relatively coherent governing programme which seeks to secure support for a specific model of social, economic and political development. However, as was argued in Chapters Two and Three, the existing 'growth model' perspective tends to focus almost exclusively on the *accumulation strategy* deployed by policymakers throughout the pre-crisis conjuncture. It therefore does not explicitly theorise the ways in which the state can be oriented towards securing a range of divergent social objectives. As such, insofar as these accounts acknowledge a role for the state at all in securing the UK's 'finance-led' growth model, they tend to analytically privilege those forms of state intervention which were *functional to* – or actively facilitated – the financialisation of the British economy throughout the pre-crisis conjuncture. The result is that the growth model perspective systematically understates the key role that alternative forms of state intervention – expressed in particular through patterns of public spending and redistribution – typically play in securing, stabilising and legitimising economic development over time.

However, the fact that a hegemonic project can effectively stabilise a given growth model does not mean that the former emerges in a functionalist manner to secure the 'reproduction requirements' of the latter. Rather, hegemonic projects represent moments of *agency* where social actors seek to either preserve or transform a given situation (Bulmer & Joseph, 2015: 8; Joseph, 2000: 18). As was argued in Chapter Three, state managers – and in particular actors at the heart of government – occupy a privileged institutional position in this regard. The occupancy of governmental power means that state actors enjoy the formal capacity to interpret, construct and then intervene within the prevailing social context in ways which can stabilise the prevailing growth model. As argued previously, we can identify three ways in which governmental actors are often driven to intervene within the economy and society in ways which can temporarily stabilise advanced capitalist development. First, policymakers typically attempt to secure the requisite level of electoral and political support by deploying a range of *governing strategies*. As well as seeking to secure the conditions for continued accumulation, state managers also typically attempt to secure governing legitimacy and support from the social base. As policymakers attempt to balance these two imperatives, they are typically driven to redistribute portions of the social surplus to groups which might otherwise be excluded from the dominant growth model. This can act as a key mechanism through which the stability and legitimacy of a social order is secured. Second, and relatedly, state managers enjoy the formal capacity to shape and condition the prevailing *distributional context* in a variety of different ways. For example, through the tax system and through pursuing redistributive social policies, state actors can mediate distributional processes and channel resources to strategically significant sections of the population. Again, such forms of intervention are not reducible to the 'reproduction requirements' of the dominant growth model but can nonetheless play a key role in stabilising it. Third, state managers do not simply respond in an automatic fashion to the prevailing social context. They also have the capacity to interpret, construct and shape that context in a number of different ways. In particular, policymakers can *strategically deploy ideas* in order to construct a given context in a particular way so as to build support for their preferred governing programme. Again, this capacity to construct and then shape the prevailing social context through the deployment of ideas affords state managers a key tool through which to secure the legitimacy – and therefore the stability – of a given growth model over time. These state capacities represent three central mechanisms through which policymakers can seek to secure a broad-base of support. In turn, the legitimation strategy pursued by state actors can indirectly stabilise and consolidate the dominant mode of economic development.

However, although this conception draws attention to the agency of state actors, it is important to note that legitimation strategies or hegemonic projects are also embedded within and conditioned by a broader structural context. As Gramsci argued, hegemonic projects are always rooted within what he termed the ‘decisive nucleus of economic activity’ (Gramsci, 1971: 161). By this, Gramsci meant that the strategies which are available to state managers to secure popular support will always be strongly delimited by the prevailing economic context. For example, in a context of rising growth and tax revenues, it is more likely that state managers will be able to secure broad-based support through offering tax cuts or through increasing public spending. Conversely, in a context of fiscal consolidation where government revenues are tightly constrained, the range of available legitimation strategies is likely to be severely limited. This relation between growth models and legitimation strategies allows us to distinguish – in ideal typical terms – between two distinct types of hegemonic project which are likely to emerge within advanced capitalist societies. On the one hand, as outlined in Chapter Four, under certain conditions state managers may be able to pursue a ‘One Nation’ hegemonic project. At root, a project of this form seeks to build a broad-based coalition of support by re-distributing significant portions of the economic surplus to a wide range of social groups (Lacher, 2013: 82). In addition, such projects will typically attempt to construct the leading social and economic programme as in the ‘universal’ or ‘general’ interest of the nation as a whole. As Jessop has put it, "‘One Nation’ strategies aim at an *expansive* hegemony in which the support of the entire population is mobilized through material concessions and symbolic rewards" (Jessop, 1990: 211).[95] As was argued in relation to New Labour, the Blair and Brown governments deployed a ‘One Nation’ hegemonic project of this form, albeit in

[95] Emphasis added.

an imperfect way and only to a limited extent. In particular, New Labour sought to secure broad-based support through redistributing some of the growth dividend associated with its finance-led growth model through enhanced government spending and (limited) redistributive social policy measures. In turn, this gave rise to New Labour's 'hybrid' regime of social and economic development which effectively stabilised and secured the legitimacy of British capitalism throughout the pre-crisis conjuncture.

On the other hand, as Jessop puts it, "'two nations' hegemonic projects aim at a more *limited* hegemony concerned to mobilize the support of *strategically significant sectors* of the population and to pass the costs of the project to other sectors" (Jessop, 1990: 211).[96] As such, 'two nations' hegemonic projects seek to unify and advance the interests of a 'privileged' section of the population whilst marginalising subordinate social groups. Furthermore, these strategies do not rest upon quietly ignoring the interests of subordinate social groups. Rather, the state identifies the retrenchment of this group's supposed privileges as a crucial precondition of securing economic advancement and national renewal. In this way, 'two nations' hegemonic projects involve attempts to secure governing legitimacy through building a (limited) coalition of social interests which can be unified in opposition to a subordinate 'Other'.

A 'two nations' legitimation strategy therefore involves the construction and entrenchment of what we can term a *moralised antagonism* between different social groups. The classic example of this approach is that which was deployed by Thatcher in the 1980s. Thatcherism distinguished between different social fractions based on their (perceived) contribution to the British economy and to the national interest. Specifically, it identified and entrenched a series of moralised antagonisms – for example between the 'deserving and undeserving poor' and 'productive and parasitic'

[96] Emphasis added.

economic sectors - in order to mobilise a limited base of support for a radical programme of retrenchment and social restructuring (Gough, 1980: 7; Jessop et al., 1988: 87). As such, the Thatcher governments were not particularly concerned with commanding the active consent of unionised workers, public sector bureaucracies or electoral groups concentrated in Labour's industrial heartlands. Rather, in line with its 'two nations' strategy, Thatcherism aspired to achieve a *limited* hegemony, commanding the support of strategically significant sections of the population and mobilising this social coalition against subordinate groups who stood against the 'national interest' (Bruff, 2013; Gamble, 1988; Hall & Jaques, 1983).

It is worthwhile drawing attention to two points which are relevant to the above argument. First, we can assume that the prevailing economic context[97] will strongly condition the kind of hegemonic projects which can be pursued within a given conjuncture. We can hypothesise, for example, that under conditions of low economic growth and weak tax revenues, 'two nations' projects are more likely to emerge insofar as the fiscal capacity of the state is effectively constrained. Under conditions of sustained economic growth, alternative more 'expansive' hegemonic projects are more likely to emerge.[98] However, and this is the second point, it is important to acknowledge that the 'One Nation' / 'Two Nations' dichotomy is in essence ideal typical. In other words, it does not attempt to capture every element of a given legitimation strategy within a particular conjuncture (Scharpf, 2010: 234). Similarly, different projects 'on the ground' may well combine elements of both 'One Nation' and 'two nations' strategies in complex ways. Ultimately, the extent to which either strategy is

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[97] Which is of course itself to a significant extent the outcome of the accumulation strategy advanced by state managers.

[98] Of course, the 'economic context' itself is at least partly shaped and conditioned by the strategic orientation of state actors. For example, if a government wishes to reduce its budget defict in the medium term it can choose to pursue a variety of different strategies, including cutting public expenditure, increasing taxes or engaging in counter-cyclical expenditure in order to boost employment and future tax revenues. As such, although a commitment to fiscal consolidation through public expenditure cuts may limit the range of legitimation strategies available to state mangers, the commitment to a deflationary economic programme of this nature is itself contingent and in principle reversible.

dominant can only be confirmed through empirical research. With these qualifications in mind, the following sections will trace the emergence and consolidation of the Coalition's legitimation strategy in government. It will be argued that the Coalition effectively sought to secure a limited base of support through constructing a series of novel distributional trends which emerged in the post-crisis period in a particular way. Specifically, the Coalition effectively constructed and entrenched a series of 'moralised antagonisms' between two sets of social groups: workers/welfare claimants on the one hand and private/public sector employees on the other. In these areas, the Coalition pursued a distinctive 'two nations' hegemonic project in the sense that it aimed to build a limited but durable base of support for continued fiscal consolidation throughout the post-crisis conjuncture and beyond.

6.3 Did the Coalition pursue a 'hegemonic project'?

Within British political science, the literature on the ideological character and political orientation of the Coalition is split between two apparently incompatible interpretations. Whilst some commentators have emphasised the radicalism of the Coalition government's programme (Cheesman, 2014; Hall, 2011b), others have drawn attention to the 'pragmatic' positioning of the Coalition and the ways in which it operated in an essentially *ad hoc* or 'non-ideological' manner (Hayton, 2013). Whilst these two interpretations may seem to provide incompatible interpretations of the Coalition government, the argument here will be that the dichotomy between 'ideology' and 'strategy' can be transcended if we combine these distinct aspects into a particular account of the Coalition's hegemonic project. As such, it is worthwhile reviewing these competing interpretations of the Coalition in the existing literature before evaluating the extent to which it deployed a distinctive legitimation strategy in government.

The first interpretation of the Coalition tends to draw attention to the ways in which the government's austerity programme flowed from an ideological commitment to a form of anti-statist liberalism which was broadly shared by the leaderships of both Coalition partners (Atkins, 2015; Cheesman, 2014; Lakin, 2013: 488). For example, one observer referred to the Coalition government's programme as "the best prepared, most wide-ranging, radical and ambitious" neoliberal project since the breakdown of the post-war settlement in the 1970s (Hall, 2011: 718). Another argued that the Coalition was mobilised by an "ideological vision that seeks to radically reduce what is perceived to be an oversized and over-centralised public sector" (Grimshaw, 2013: 4). Others have argued that the Coalition's approach involved imposing a programme of public sector cuts which "even Mrs Thatcher would have baulked at" (Cheesman, 2014: 2; Kerr et al., 2011: 196). Considerable evidential support can be found for these characterisations of the Coalition programme. For example, as we saw in the previous chapter, the envisioned scale and speed of the Conservative's austerity programme announced in the 2010 Spending Review was larger than any other programme of fiscal consolidation in modern British political history (Ferry & Eckersley, 2012: 21; Lee, 2011b: 21). In the 2014 Autumn Statement, plans to run a budget surplus by 2019/20 implied that the Conservatives were committed to reducing public spending to 35 per cent of GDP - its lowest level since the 1930s (OBR, 2014a). Even the NHS, which was protected relative to other departments, saw the tightest squeeze on its real terms budget since the 1950s (Lee, 2011a: 15). Within the space of three years, rapid cuts to public spending had reduced the size of the public sector workforce as a proportion of the employment total to its lowest level in at least forty years (Cribb, et al., 2014: 2). In light of these observations, it is clear why many scholars have emphasised the *radicalism* of the Conservative-led government and have argued that the project was mobilised by an ideological commitment to shrink the size of the state (Atkins, 2015; Beech, 2011; Keegan, 2014: 64).

On the other hand, a number of commentators have emphasised the pragmatic nature of Conservative statecraft in the post-crisis period (Gamble, 2011: 176; Hayton, 2013; Taylor-Gooby & Stoker, 2011: 12). These accounts emphasise the flexibility of the Conservative's policy platform in general and of Osborne's political manoeuvrings in particular (Ganesh, 2012). Once in 10 Downing Street, it is widely acknowledged that Cameron did not develop a coherent or consistent governing philosophy (Behr, 2015; Lakin, 2013: 487). Indeed, in government the Conservatives changed course on a number of core policy issues on a number of occasions. For example, as we saw in Chapter Five, when it became apparent in 2011-12 that the government would not meet its original deficit reduction targets, these were quietly abandoned despite considerable internal opposition from the Tory backbenches and from large sections of the business community. Similarly, the 'Big Society' concept - which had arguably been the key ideational motif of Cameronism in the pre-election period - was largely abandoned in 2010 when it was not well received on the doorsteps or by focus groups (Dorey & Garnett, 2012; Ganesh, 2012: 236). Furthermore, the Coalition programme contained certain policy commitments - including its (partial) protection of the NHS and foreign aid budgets relative to other departments - which suggested that the government was willing to incorporate distinctly post-Thatcherite policies into its prospectus so long as these reaped a discernible political dividend. In short, characterisations of Cameron's government as essentially *pragmatic* argue that 'ideological' analyses of the Coalition underestimate the key role that electoral calculations and *ad hoc* manoeuvring played in the formation of the government's economic and social policy in the post-crisis conjuncture (Hayton, 2013).

We are left, then, with a seeming paradox: on the above evidence we can characterise the Conservative-led government as simultaneously *radical* and *pragmatic*; as committed to a long-term, fundamental restructuring of the British state and economy whilst at the same time willing to abandon key aspects of this programme in light of short-term political calculations (Cheesman, 2014). How might we resolve this tension? The answer is that these apparently irreconcilable interpretations of the

Coalition's programme rest on a false distinction between 'ideology' and 'statecraft' (Griffiths, 2015). As outlined in Chapter Three, in British political science, one of the key debates relating to the question of whether government policies are driven primarily by ideology or by statecraft concerned the nature of Thatcherism in the 1980s (Bulpitt, 1986). In explaining the development of Thatcherism some scholars emphasised its roots in 'New Right' ideology or its 'authoritarian populist' origins (Hall & Jacques, 1983; Hall, 1979). Others emphasised the strategic positioning of Thatcherism and its essentially pragmatic character (Beer, 1982; Bulpitt, 1986; Marsh & Rhodes, 1995; Riddell, 1983). Thus, such interpretations revolved around a broad distinction between 'ideas' and 'strategy'. However, as Jessop and Hay argued, it is possible to transcend this dichotomy by advancing an approach which *synthesises* these two positions (Hay, 1996; Jessop et al., 1988). Specifically, they argued that analysis should focus on the ways in which policymakers *strategically deploy ideas in order to mobilise key sections of the population in support of distinct programmes of social, economic and political restructuring* (Hay, 1996a, 1999b; Jessop et al., 1988). In this way the framing of whether a Party's strategy is 'ideological' or 'pragmatic' is transcended. Rather, the emphasis turns to the ways in which ideas are themselves deployed in a strategic manner in order to advance longer-term political goals.

This has two implications for our analysis of the Coalition. First, it suggests that those who view the Coalition government as essentially 'pragmatic' and therefore 'non-ideological' in orientation underplay the extent to which the Cameron government strategically deployed ideas in order to realise specific social objectives. As we shall see in the following sections, the immediate post-crisis context generated a series of novel distributional trends. In particular, the incomes of welfare claimants and public sector workers were (temporarily) protected relative to other social groups due to the rapid downturn in private sector real wages in the aftermath of the 2008 crash. However, this distributional context did not of itself produce political outcomes. Rather, leading government officials within the Coalition actively sought to construct this reformulated distributional context in a particular way so as to secure support for a policy of far-reaching retrenchment. Second, an emphasis on the strategic deployment of ideas should move us away from the question of the Coalition's 'ideology' insofar as this is understood as a unified and fully-formed worldview. Rather, it is more helpful to study the ways in which certain ideas and governing narratives - and in particular the cultivation of 'moralised antagonisms' between different social groupings - were deployed in specific policy areas in order to build support for the Coalition's restructuring programme. As Jessop has written, "it is difficult to discuss hegemony... [or] hegemonic projects...without reference to specific examples and the substance of particular political, intellectual and moral discourses (Jessop, 1990: 212). As such, analysis of the *ideas* which the Coalition strategically deployed should be understood in relation to the *practical objectives* which it sought to achieve in government.

In this regard, it is reasonable to propose that the Coalition had three inter-related strategic objectives throughout the post-crisis conjuncture. These were to (i) maintain a level of popular support sufficient to secure future re-election without (ii) compromising its overriding economic strategy in order to (iii) build a limited but durable base of support for continued fiscal consolidation and private sector-led growth in the future. When analysing the governing narratives and discursive techniques deployed by the government in this period, it is essential to keep these strategic considerations in mind. How, then, did the Coalition strategically deploy particular governing ideas and narratives in order to advance its political programme?

A good starting-point for the analysis is to consider the extent to which the Coalition's hegemonic strategy 'broke' with the approach which had been established under New Labour in the pre-crisis conjuncture.[99] As argued in Chapter Four, New Labour's 'One Nation' hegemonic project involved both a discursive framing of its political programme as well as a deployment of complementary concrete policy interventions which re-directed revenues towards subordinate social groups. In the case of the Coalition we can similarly identify attempts to 'frame' its political programme as in line with a 'One Nation' governing narrative (Cheesman, 2014; McAnulla, 2010: 294). For example, upon signing the Coalition Agreement, Cameron and Clegg underlined their shared commitment to work together in the 'national interest' (Atkins, 2015; Crines, 2013). In particular, the newly-formed government argued that its deficit reduction programme was designed to deliver "a stronger society, a sound economy, an accountable state, and power and responsibility in the hands of every citizen" (Osborne, 2010d). This programme was presented as benefiting the entire population and therefore as representing the 'national interest' (Atkins, 2015: 88). The Coalition's attempt to associate austerity with a 'One Nation' politics was perhaps at its clearest in Cameron's habitually deployed aphorism that "we are all in this together" (Lee, 2011b). According to this narrative, the government accepted that austerity would involve painful sacrifices on the part of British citizens; however, the government emphasised that it would ensure that these losses were distributed 'equitably' across society (Evans, 2010: 337). For example, in Osborne's speech to parliament announcing the details of his 2010 *Spending Review*, he said that, "on fairness, we are all in this together and all must make a contribution... across the entire deficit reduction plan, those with the broadest shoulders will bear the greatest burden" (Osborne, 2010c). This 'equitable' approach was bolstered by a limited range of policy

[99] This chapter will focus exclusively on the governing strategy deployed by the Coalition government. The latent political-economic programme which underpinned the Conservative's programme need not concern us here. However, it is worth noting - in line with the argument of Chapter Five - that in its early phase the Conservative Party under David Cameron incorporated key elements of the incumbent Labour government's 'One Nation' strategy. This is evidenced perhaps most clearly in Osborne's commitment in 2007 to match Labour's public expenditure levels over the following three years.

commitments. For example, whilst the Conservatives proposed a public sector pay freeze, it simultaneously sought to abolish tax credits for families with an annual income of more than £50,000 (Evans, 2010: 337). Similarly, until February 2012, the government retained Labour's 50p tax rate in spite of business opposition, with government officials justifying this on the grounds that, "in our efforts to reduce the deficit we need to demonstrate that we are doing that in a fair way" (Hope & Winnett, 2012). In this way, austerity was presented as a collective project of self-sacrifice which would deliver benefits in the future for all members of British society. This logic was epitomised in Cameron's 2010 Conference Speech, when he said, "I promise you this: that if we pull together to deal with these debts today, just a few years down the line the rewards will be felt by everyone in our country" (Cameron, 2010a).

However, there were clear limits to the Coalition's attempt to discursively frame its political programme as embodying 'One Nation' principles of equity and fairness. New Labour's 'One Nation' hegemonic project had been supported by concrete redistributive policies. Rising economic growth and enhanced tax revenues created a pool from which the Blair-Brown governments could draw to fuel mildly redistributive fiscal transfers and to fund an expansion in public sector provision. As such, to the extent that New Labour 'framed' its policies in line with a 'One Nation' discourse, it could partially back this up through enhanced redistribution to the social base. Its capacity to do this of course rested upon the success of its economic strategy and on the revenue base which was generated by the (temporary) success of Britain's finance-led growth model. It is here where the Coalition's hegemonic project broke most clearly with New Labour's approach. As we saw in the previous chapter, the Coalition had staked its economic credibility on 'clearing-up Labour's mess' and on eliminating the budget deficit in one parliament. Since this was to be achieved primarily through spending cuts, this severely limited the extent to which the Coalition could incorporate subordinate social groups into its political programme through re-distributive fiscal transfers and expanded state provision. In certain politically sensitive areas, the Coalition did maintain spending levels to a certain extent. In particular, it protected the incomes of pensioners and 'ring-fenced' the budgets of some government departments in relative terms (notably health and education) (Lupton et al., 2015: 3). However, this meant that very substantial cuts were necessary in 'non-protected' departments and in the welfare budget (ibid). Indeed, the very rationale of austerity was to reduce these transfers and to retrench large sections of the public sector in order to put the government's finances onto a sounder footing. Thus, whilst the Coalition attempted to advance a 'One Nation' discursive framing of its political programme, this was compromised by its relative inability to back this up with complementary concrete policy interventions.

This rendered the Coalition's political programme and its 'One Nation' framing vulnerable on a number of fronts. We can see this if we briefly consider the distributional impact of the government's fiscal and monetary policy over the 2010-15 parliament. On the fiscal side, consolidation was to be secured through large cuts to the budgets of unprotected government departments. However, households lower down the income scale characteristically rely more heavily on public services than those higher up the income distribution. As a result, taken as a whole, cuts to public services took "just over twice the proportion of income from the poorest fifth of the population as from the richest fifth" (Taylor-Gooby & Stoker, 2011: 8). In line with this analysis, the IFS reported that the Coalition's "tax and benefit changes...[were] *clearly regressive* as, on average, they hit the poorest households more than those in the upper-middle of the income distribution in cash, let alone percentage, terms" (IFS, 2010).[100] Between 2010 and 2014, a household in the bottom tenth of the income distribution would lose approximately 5 per cent of its income as a result of the Coalition's tax and benefit changes, compared to a household at the median which would lose 3 per cent and a

[100] Emphasis added.

household in the 9th percentile which would lose just under 2 per cent (ibid.). Additionally, the composition of cuts to local authority budgets disproportionately impacted upon areas with highest levels of deprivation (Grimshaw, 2013). Indeed, one report showed that urban areas with high levels of poverty and unemployment lost almost 9 per cent of their spending power as a result of the cuts, whereas less deprived districts lost less than 1 per cent (Easton, 2011). As such, despite the Coalition's 'One Nation' rhetorical positioning, the distributional impact of its fiscal policy ensured that households lower down the income scale bore a greater proportionate burden of deficit reduction than those higher up.

At the same time, this ratcheting-up of fiscal discipline was paralleled by a prolonged period of loose monetary policy. From March 2009, interest rates fell to a historic low and the Bank of England embarked upon a sustained programme of 'Quantitative Easing'. However, both of these policies tended to benefit households at the upper end of the income distribution. In particular, sustained low interest rates lowered mortgage servicing costs, such that housing costs for owner occupiers fell by 37 per cent between 2007-8 and 2012-3 (IFS, 2014c: 51). This primarily benefited households in the upper half of the income distribution where the vast majority of homeowners are concentrated (ibid.: 56). At the same time, the Bank of England conceded that QE had a regressive distributional impact, primarily benefiting the top five per cent of wealthiest households (Bank of England, 2012: 254). As such, despite its 'One Nation' rhetoric, the Coalition's period in office was underpinned by a dynamic of *regressive redistribution* - a process of state-led restructuring which combined real wage stagnation with sustained asset-price inflation (Green & Lavery, 2015). Rather than expanding the base of social wealth and incorporating subaltern social groups through redistributive transfers, the Coalition's austerity programme deepened the structural shift towards inequality in Britain (SPERI, 2015). As such, the distributional dynamics which underpinned the Coalition's political economy undermined the government's attempts to frame its policies as working towards a 'common' or 'national-popular' interest.

This underlying dynamic of regressive redistribution posed a series of political risks for the Conservative-led government. For example, throughout the post-crisis conjuncture, two-thirds of voters agreed with the statement that "the Conservative Party looks after the interests of the rich, not ordinary people" (Policy Exchange, 2013). Similarly, in a context of sustained wage repression and falling living standards, the Conservatives were particularly vulnerable to Labour's charge that it had provoked a 'cost of living' crisis (Wood, 2013). Insofar as wages and living standards continued to decline throughout most of the parliament, the Coalition's 'One Nation' framing was vulnerable to the charge that it was little more than a smokescreen designed to provide cover for a programme which favoured the interests of the already well-off (Massie, 2015).

It is here where it is crucial to acknowledge that the Conservatives only mobilised a 'One Nation' framing of its policies to a limited extent. In addition, it simultaneously deployed a distinctive 'two nations' legitimation strategy which sought to "mobilise the support of strategically significant sections of the population [whilst passing] the costs of adjustment onto other sectors" (Jessop et al., 1988: 179; Jessop, 1983). As outlined above, two conditions must be in place if we are to characterise a political project as embodying a 'two nations' strategy. The first is that the strategy must rest upon a clear distinction between 'privileged' and 'marginalised' social groups. In broad terms, the Coalition's political programme identified two key social groups who would bear the burden of the spending cuts: working age welfare recipients and public sector employees (Cameron, 2012; Dorey, 2015: 91). Passing the burden of adjustment onto these social groups was largely inevitable given the Coalition's economic strategy of securing deficit reduction through large spending cuts. The second feature of a ‘two nations’ project is that it constructs this as a ‘moralised antagonism’ - that is that it seeks to solicit the active support of the ‘privileged’ nation by convincing it that the marginalised group’s social position (and in particular its parasitic relationship with the state) has deleterious effects upon the nation as a whole. In the case of the Coalition government, it sought to contrast the ‘privileges’ of social groups supposedly reliant on the state with the position of social groups concentrated within the private sector. In this way, the Coalition sought to mobilise support from ‘privileged’ sections of the community (namely private sector employees and groups of workers who were discursively constructed as ‘independent’ from the state) in order to advance its austerity programme. In the following sections this ‘two nations’ hegemonic project will be analysed in relation to two key policy areas: welfare restructuring and public sector employment retrenchment.

6.4 ‘Two Nations’ Hegemony: Welfare restructuring and real wage decline

The Coalition’s austerity programme involved a ‘bewildering array’ of changes to the welfare system (Baumberg, 2012: 25; Hood & Phillips, 2015). The purpose here is not to detail the full complexity of these changes but rather to delineate the way in which this programme of retrenchment was sustained politically through the deployment of a broad ‘two nations’ legitimation strategy. Although classifications vary, spending on welfare is generally understood to account for approximately 30 per cent of public expenditure in Britain (IFS, 2014d). For example, while total government spending amounted to £695 billion in 2011-12, £242 billion of this went on ‘social protection’, a spending category which includes working age benefits and old age pensions (Burton, 2013: 2). From the beginning of the parliament, the Conservatives had placed reducing the size of the welfare bill at the centre of its deficit reduction strategy. In the June 2010 Budget, for example, one third of the savings proposed by the Coalition were to be achieved through cuts to spending on welfare (HM Treasury, 2010b: 16). The October 2010 Spending Review set-out further welfare cuts of £7 billion per year over the course of the parliament (Cheesman, 2014; Ferry & Eckersley, 2012: 19). However, in light of electoral considerations, the Conservatives chose to protect the value of old age pensions over the parliament, creating a 'triple lock' which would ensure that state pension payments would increase year-on-year by which ever had the highest value out of earnings or inflation.[101] Since pensions account for approximately half of the total welfare bill, this meant that large welfare savings had to be found elsewhere (IFS, 2014c).

The principal area of welfare which became earmarked for cuts therefore became working age benefits (Cameron, 2012). In some respects, cutting working age welfare may not have seemed to be a difficult a task for the Coalition. For instance, opinion polls confirmed that the public were largely in favour of reducing certain working age benefits, with over 50 per cent of survey respondents between 2010 and 2015 consistently stating that benefits for the unemployed were 'too high and discouraged work' (Taylor-Gooby & Taylor, 2015: 10; YouGov, 2013). However, in terms of the total benefits bill, only 3 per cent specifically went to unemployed households (IFS, 2014a: 8). This compares with 18 per cent for the sick and disabled, 17 per cent for in-work but low income households and 18 per cent towards families with children (ibid.). As such, broad swathes of the population were in fact in receipt of some kind of welfare support, whether in the form of housing benefit, tax credits, child benefits or other forms of fiscal transfer. This meant that the task of cutting the welfare bill remained fraught with political danger for the Coalition (Pierson, 1996, 2011). The key political question for the government was how to implement a large programme of

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[101] If both of these measures were below 2.5 per cent, then the 'triple lock' ensured that state pensions would increase by a minimum of 2.5 per cent.

welfare retrenchment which would in fact impact negatively on the incomes of large swathes of the population whilst retaining a sufficient base of political support.

It is here, in the implementation and management of the Coalition's programme of welfare retrenchment, where we can identify a broad but distinctive 'two nations' legitimation strategy. A good example of this strategy can be seen if we consider the relationship between real wage decline, welfare restructuring and inequality in the post-crisis conjuncture. In a sense, there was a paradox at the heart of the debate around inequality in Britain in this period. On the one hand, inequality emerged as a key area of public debate in the aftermath of the 2008 crisis.[102] Across the political spectrum there was a growing recognition that rampant distributional inequities were economically imprudent and unsustainable. However, this re-emergence of concern with inequality occurred at precisely the moment when, on some measures at least, inequality fell in Britain. As the IFS demonstrated, the gini co-efficient fell from 0.36 in 2007-8 to 0.34 in 2012-3 (IFS, 2014a: 34). This was the lowest level of income inequality recorded – at least on the gini measure – in Britain for over two decades. What drove this decline in income inequality over the post-crisis period?

As outlined previously, since the financial crash of 2008, there had been a period of unprecedented real wage decline, with in-work households losing approximately 8 per cent of their incomes during this period. The result of this was that inequality measured in terms of the 'market income' – the distribution of income between those who derive their income from employment, self-employment and capital – did increase in the first three years of the downturn (Exell, 2013). Private firms effectively passed the burden of economic adjustment on to employees in the form of wage cuts and pay freezes, whilst the public sector simultaneously cut back on pay and on the size of its workforce (Green & Lavery, 2015). However, during this

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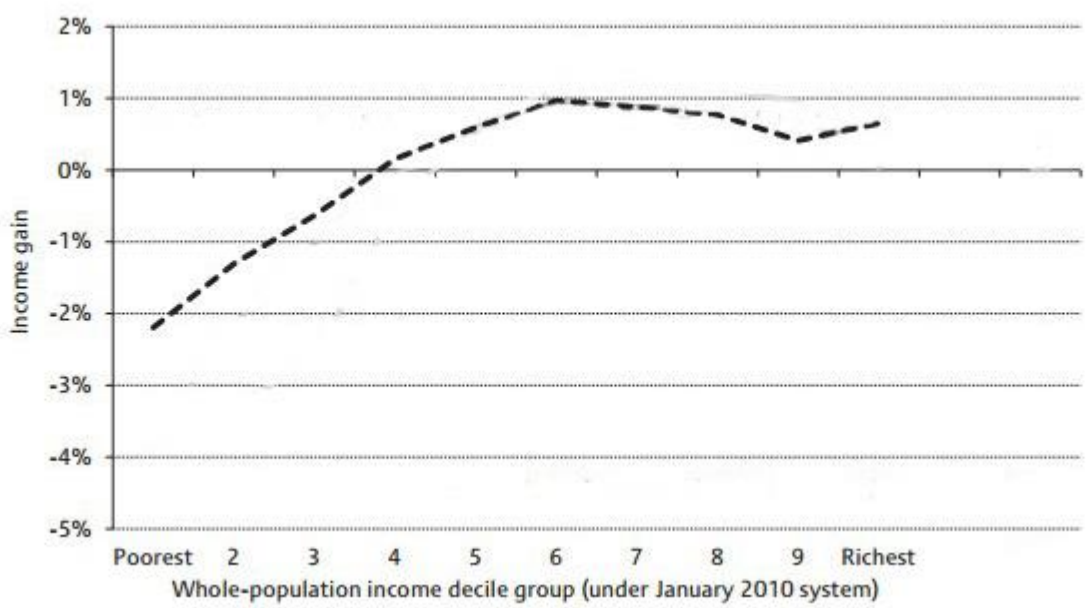
[102] See for example, various publications by the IMF and OECD: (Dabla-Norris et al., 2015; Ostry & Berg, 2011; OECD, 2015).

period the income of *non-working households* remained relatively protected, largely because welfare payments are indexed to inflation and therefore act as 'automatic stabilisers' in periods of recession (IFS, 2014c: 3). As the income of non-working households fell less rapidly than the incomes of in-work households, this led to a decline in the overall level of income inequality between 2008 and 2013 (Lupton et al., 2015: 6; ibid: 40.).

This dynamic was of considerable political significance in the debate over austerity in Britain. The Coalition government – sensitive to opposition charges that its policies had precipitated a 'cost of living crisis' – argued that the fall in income inequality was proof that the burden of its austerity programme had been shared equitably across society. For example, in his 2014 Budget Speech, Osborne pointed out that, "under this government income inequality is at its lowest level for 28 years", whilst during a PMQs in November 2013 Cameron argued that the fall in income inequality demonstrated that the Conservatives were committed to building a "fairer country" (Cameron, 2013; Osborne, 2014b). However, there was a profound irony at the heart of this narrative (SPERI, 2015: 5 – 7). As was argued above, the decline in income inequality had been driven by a combination of declining median real wages occurring alongside the relative protection of non-working household incomes through the benefits and tax credit system. However, as of April 2013 the pace of cuts to benefits and tax credits was substantially accelerated, as the provisions of the Welfare Reform Act (2012) came into effect (HM Government, 2012). As a result of this legislation, the government introduced a number of reforms which disproportionately reduced the incomes of groups lower down the income scale. For example, it implemented a 'welfare cap' which set a limit on the total sum of benefits that working age households could claim (Hamnett, 2014). However, households in the lower half of the income distribution were more dependent on benefits which had been 'capped' than households in the upper half of the income distribution. As a result the welfare cap "disproportionately targeted benefits claimed by the least well off" (Goulden, 2014)[103]. In addition, Osborne announced that most working age benefits and tax credits would be up-rated by one per cent (below inflation) for the three years from April 2013 to April 2016, a measure which was estimated to achieve savings of £1.7 billion (IFS, 2014a: 9). Again, this had a disproportionate impact on households in the lower end of the income distribution who were more reliant on social security payments (ibid: 33). As Figure 6.1 demonstrates, the tax and benefit changes implemented between April 2013 and April 2015 therefore had a clearly regressive impact, such that households in the bottom four income deciles experienced a net loss to their incomes, whilst households in the upper deciles saw their incomes protected in both absolute and relative terms.

Figure 6.1: Impact of direct tax and benefit reforms introduced or planned between April 2013 and April 2015 by income decile group



Source: (IFS, 2014c: 54) [adapted by author].

[103] Some key benefits which were 'capped' included housing benefit, tax credits and pension credit.

The result was that between 2010 and 2015, the overall impact of the Coalition's programme of tax and benefit reforms was broadly regressive. As one report put it:

> The poor bore the brunt of [the Coalition's] changes to direct taxes, tax credits and benefits from May 2010 to 2014-15. Up to 2014/15, the poorest twentieth lost nearly 3 per cent of their incomes on average from these changes (not allowing for VAT and other indirect taxes) and people in the next five-twentieths of the income distribution lost almost 2 per cent... [on the other hand] those in the top half of the distribution were net gainers from the changes.
>
> (Lupton et al., 2015: 5)[104]

The tension in the Conservative's narrative was clear: on the one hand, the government highlighted the fall in income inequality as evidence of the 'fairness' of its austerity programme; at the same time, through its programme of benefit and tax credit cuts it set about actively dismantling the very mechanisms which had produced this (small) reduction in income inequality in the first place. As a result, the initial drop in income inequality which occurred after the crisis began to go into reverse. Thus, in 2014 the IFS wrote that, "on-going cuts to benefits and tax credits [will] reduce incomes towards the bottom... income inequality may well return to its pre-crisis level within the next few years" (IFS, 2014c: 56). Another report similarly suggest that, once the Coalition's tax and benefit changes were taken into account, net household income inequality as well as relative and absolute poverty were all set to increase substantially by 2020 (Brewer et al., 2012). As such, the decline in income inequality between 2008/9 and 2012/3 is best viewed as a temporary blip in an otherwise clear historical trajectory in Britain. The benefit and tax system for a short period of time protected the

[104] This dynamic holds true for all households across the top of the income distribution with the exception of households in the top 5 per cent.

incomes of the poorest households and reduced relative inequality in the first few years of the post-crisis conjuncture. However, by 2012 this very mechanism had itself become politicised and identified as an object of retrenchment by the Coalition.

In what sense did this dynamic embody a 'two nations' hegemonic project? As was argued in Chapter Three, one of the key features of hegemonic projects is that they do not only seek to accommodate the preferences of the public in order to advance distinctive political projects; they also seek to strategically deploy ideas in order to shape public discourse in ways which support particular logics of social, political and economic restructuring (Dunleavy, 2014: 129; Hay, 1997b). As we have seen, between 2008/9 and 2012/3, the welfare system protected the incomes of non-working households relative to wage earners. The outcome of this dynamic - a temporary drop in income inequality - was used by the Coalition to bolster its argument that its austerity programme was fairly distributing the pain of retrenchment. However, at the same time, the Conservatives sought to actively play upon the distinction between non-working households and wage earners in order to advance a distinctive programme of welfare retrenchment which would effectively reverse these gains. In broad terms, the Conservatives drew upon a long-standing distinction between the 'deserving' and 'undeserving' poor (or in the contemporary parlance 'strivers' .v. 'skivers') in order to frame its programme of welfare retrenchment (Garthwaite, 2011; Hills, 2014; Valentine & Harris, 2014). For example, in the White Paper *21st Century Welfare*, it was stated that:

> Any reforms should … establish a fairer relationship between *the people who receive benefits and the people who pay for them* and, as crucially, between the people on out of work benefits and the people who work in low paid jobs.

(DWP, 2010a: 5)[105]

Similarly, in 2012, Osborne stated that:

> It's unfair that when that [working] person leaves their home early in the morning, they pull the door behind them, they're going off to do their job, they're looking at their next-door neighbour, the blinds are down, and that family is living a life on benefits. That is unfair ... and we are going to tackle that as part of tackling this country's economic problems.
>
> (Osborne 2012)[106]

This broad distinction between a 'deserving' and 'undeserving' poor of course has a long pedigree in Conservative thought and governing practice (Stephen Evans, 1997: 607; Hickson, 2009: 351). However, it is crucial to account for how the Conservative's utilisation of this discourse in government involved more than an abstract appeal to traditional anti-welfarist principles. It also involved interpreting, narrating and framing its particular interventions in terms of specific conjunctural trends associated with the post-crisis context. It is here where the link between inequality, real wage decline and welfare retrenchment provides us with a good example of the Conservative-led government's 'two nations' legitimation strategy. In January 2013, the Coalition aimed to drive its *Welfare Benefits Up-Rating Act* (2013) through parliament. As we saw previously, this aimed to impose a below inflation 'cap' of 1 per cent on a range of benefits which working age households could claim over a three year period. The goal was to achieve savings of £270 million per annum from 2014-15 onwards. However, crucially, the Conservatives did not only justify this on the grounds that it would contribute to deficit reduction. They also sought to frame this intervention in terms of 'fairness' and as a measure which showed that they were

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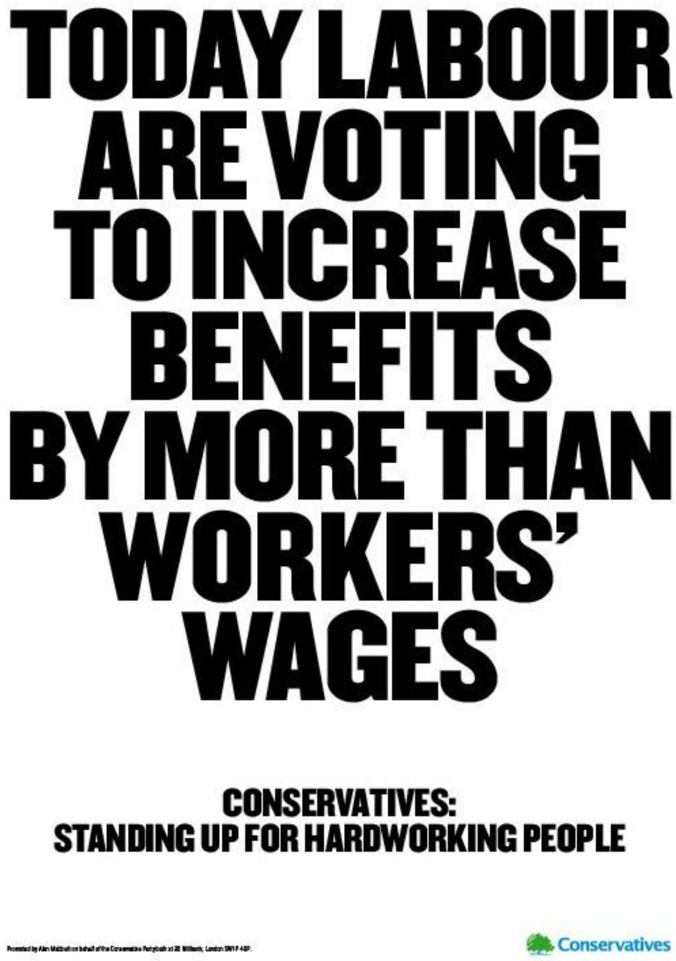
[105] Emphasis added

[106] Cited in: (Eaton, 2012).

'standing up for working people' (Mason, 2013). Specifically, the government argued that in a context of falling wages it was unfair that welfare recipients should receive more than in-work households. In this way, the Conservatives sought to discursively construct themselves as the Party of 'hard working families' in order to gain a political advantage in key marginal seats and to make in-roads into Labour's core vote. As the Labour Party voted against the measures, the Conservative's responded with an advertising campaign which sought to portray Labour as 'soft' on welfare, making the point that Labour were "voting to increase benefits by more than workers' wages" (see Figure 6.2 below). In this way, the Conservatives sought to portray Labour's policy as promoting the interests of feckless benefit claimants as opposed to hard working families.

Figure 6.2: Conservative Party Poster: 'Today Labour Are Voting to Increase Benefits by more than Workers' Wages'



Source: Conservative Home Website (Conservative Home, 2013)

This is a good example of the Conservative's 'two nations' legitimation strategy. It rested upon constructing a 'moralised antagonism' between a privileged group ('workers') and a marginalised group (benefit claimants). It then sought to mobilise support for its own approach by emphasising how its policies favoured the former over the latter. In particular, the government sought to present its policy as favouring those 'in-work' as opposed to those on the unemployment register. For example, the Department for Work and Pensions impact assessment stressed that as a result of the policy, "workless households will no longer receive more in benefits than the average weekly wage received by families in work" (DWP, 2012). Iain Duncan Smith justified the policy in similar terms by claiming that, "for too many people, it pays more to languish on benefits than to enter work... [the policy would therefore ensure] fairness to those who work hard and pay into the system in the process" (Duncan Smith, 2013). The problem was that this dichotomy rested on a rhetorical rather than a factual opposition between 'workers' and 'benefit claimaints'. In practice, the effect of the welfare cap was to reduce the incomes of 9.5 million households. Of these only 2.5 million were out-of-work; 7 million of the affected households were in fact in low-paid employment (Mason, 2013). As such, the policy had the effect of reducing the incomes of broad swathes of the working population. However, the *framing* of the policy was designed to secure the support of precisely this social group. In this regard, the strategic deployment of a 'two nations' discourse was highly successful: by a three-to-one majority, the public (incorrectly) thought that the welfare cap would primarily hit the unemployed as opposed to low-paid workers (TUC, 2013a). In encouraging identification and mobilisation against a (largely constructed) 'workless' underclass, the Conservatives successfully secured broad-based support for a policy which might otherwise have failed. Partly as a result of this, on the eve of passing the legislation, 74 per cent of the population were in favour of the cap as opposed to 11 per cent who were against it (YouGov, 2013b).

As was mentioned previously, declining real wages and stagnant living standards posed a real threat to the Coalition's governing legitimacy over the post-crisis conjuncture. By 2012, Labour's 'cost of living' narrative had gained considerable political traction. By a margin of approximately 10 per cent, voters thought that Labour were more likely to 'improve living standards' and to 'provide more jobs' than the Conservatives (YouGov, 2013a). However, we can see how through the deployment of its 'two nations' strategy, the Conservatives effectively bolstered support for its own political programme by channelling the discontent of in-work households downwards onto a (largely constructed) subaltern group of welfare dependent 'shirkers' (Hayton & McEnhill, 2014: 107). This strategy achieved three principal goals. First, it transformed the potential liability of sustained real wage decline into a political asset for the

Conservatives. The government used the sustained drop in real wages as a means to justify welfare retrenchment and to build support for a policy which (ironically) would further retrench the after-tax incomes of low paid workers. Second, it allowed the government to deflect blame for falling living standards onto welfare recipients. Third, taking these two dynamics together, the Conservatives could then mobilise support for further welfare retrenchment from a discursively constructed 'privileged' nation of hard-working tax payers. The fact that this process would unravel the very welfare protections which had facilitated the decline in income inequality in the first few years of the crisis and which the Conservatives had themselves held-up as a symbol of the 'fairness' of its programme was, from the perspective of the strategic objectives of the government, irrelevant. The strategic deployment of a 'two nations' legitimation strategy - and the construction of a 'moralised antagonism' between workers and working age benefit claimants - was effective in helping to advance the short and medium term political objectives of the Coalition government.

6.5 'Two Nations' Hegemony: the 'Public-Private' Divide

As has been stressed throughout this chapter, the extent to which growth models effectively sustain economic activity strongly conditions the kind of legitimation strategies which governments can deploy in office. In periods of low growth where productivity is stagnant and the revenue base is constrained, governments will generally struggle to channel material concessions - whether through increases in public spending, tax cuts or other distributive mechanisms - to subordinate social groups. This means that during periods of fiscal consolidation, 'two nations' governing strategies are more likely to emerge which seek to secure a "*limited hegemony* concerned to mobilise the support of strategically significant sections of the population and to pass the costs of the project to other sectors" (Jessop, 1990: 211).

The Coalition's commitment to the austerity programme outlined in Chapter Five limited the strategies which it could deploy in order to solicit the support of subordinate social groups. With approximately 80 per cent of deficit reduction to be secured through spending cuts, the government's economic strategy also ran the risk of producing a substantial public backlash against the cuts (Borges et al., 2014: 1; Burnham, 2011) This was particularly so in the case of public sector employment. As we saw in Chapter Four, in its second and third terms, New Labour significantly increased spending on public services, such that public sector employment increased by 700,000 between 2000 and 2010 (Cribb, Disney, et al., 2014). In contrast, the Coalition's programme of fiscal consolidation outlined cuts of 19 per cent across non-protected departments (Ferry & Eckersley, 2012: 17). Since wages account for approximately 30 per cent of all general government expenditure, one of the key tasks for government departments was to cut to the size of their wage bills (Bozio & Disney, 2011: 163). The Coalition aimed to secure this through three principal mechanisms: through wage cuts, pensions reform and large scale redundancies (Bach & Stroleny, 2013: 345). In this way, an economic crisis which had originated within the banking sector was reconstituted as a fiscal crisis of the state, with a significant portion of the burden of adjustment passed on to those working within the public sector (Burnham, 2011; Gamble, 2012: 61).

However, this strategy of public sector retrenchment came with two considerable political risks. First, the public sector is the most highly unionised section of the British workforce: it has a trade union density four times that of the private sector (Parry, 2011: 4). Although the power of organised labour had been increasingly marginalised since the late 1970s, its relative strength in the public sector remained a potential barrier to the Coalition (Eaton, 2010; Machin, 1997; Müller et al., 2015: 36). This was evidenced in 2011 when 1.3 million working days were lost to strike activity primarily in the public sector - a figure which far exceeded previous trends throughout the 2000s (Müller et al., 2015: 37). Second, there was a danger that large scale public sector job losses would lead to an increase in unemployment, which could have compromised the government's deficit reduction programme and undermined its governing legitimacy. The key strategic objective of the Coalition government was therefore to contain the fall-out from public sector retrenchment in both of these areas. As was the case with its programme of welfare restructuring, we can identify the utilisation of a broad 'two nations' legitimation strategy in order to achieve this objective. The purpose of this section is not to offer a detailed assessment of public sector restructuring in the post-crisis conjuncture. Rather, the aim will be to outline how the Coalition deployed a broad 'two nations' strategy focussed around a 'public-private' distinction in order to build support for its programme of public sector employment retrenchment.

As was argued previously, 'two nations' legitimation strategies seek to secure a 'limited hegemony' by entrenching *moralised antagonisms* between distinct social groups. These strategies seek to gain the support of 'privileged' sections of the population through constructing the interests of subordinate social groups as in conflict with a broader national interest. In the case of public sector workers, the Coalition's planned cuts and its governing rhetoric both bore the hallmarks of a classic 'two nations' strategy. In broad terms, the Coalition sought a large reduction in the size of the public sector workforce. In the June 2010 Budget it was predicted that 490,000 jobs would go in the public sector by 2014-15 in order to save £3.3 billion by the end of the parliament (Exell, 2010: 29; Grimshaw, 2013: 10). However, less than two years into the Coalition's period in office, 420,000 public sector job cuts had already been implemented (Grimshaw, 2013: 9). As a result, by 2012, the OBR had increased the level of overall job cuts it expected to see in the public sector to 740,000 by 2017 (OBR, 2012: 75). By 2013, this figure had increased further still - overall, the OBR projected a net loss of 1,000,000 public sector jobs between 2011 and 2018/19 as the public spending squeeze was extended into the next parliament (OBR, 2013: 75). As the IFS remarked, this represented a cut to general government employment which was "three times as large as those delivered in the early 1990s, and unprecedented in at least the last 50 years" (Cribb, Disney, et al., 2014: 36).

This massive reduction in the size of the general government workforce was paralleled by a qualitative restructuring of the employment relation within public workplaces. First, government departments sought to deliver large savings by initiating a sustained period of real wage cuts per head for public sector workers. Until March 2011, wage deals which had been agreed in the 2008 - 2011 Spending Review period were still current (Parry, 2011: 13). However, in the June 2010 Budget, a two year pay freeze was announced which subsequently took effect between March 2011 and 2013. For the following three years (from 2013 - 2016), public sector pay increases were limited to one per cent, a percentage increase which was below the average rate of inflation (Bach & Stroleny, 2013: 345). As a result, throughout the 2010 to 2015 parliament and beyond, public sector workers experienced a prolonged period of real wage decline. Second, the Coalition sought to lower the value of public sector pensions. In the June 2010 Budget, the government moved to up-rate pensions by CPI (a measure which typically produces a lower rate of inflation because it excludes housing costs) rather than by the RPI. Combined with other reforms, the net effect of this was to reduce the value of public sector pensions by an average of 25 per cent relative to previous schemes (Exell, 2010: 30). In addition, as of April 2012, public sector workers were required to pay on average 3 per cent more in contributions to pension schemes than previously, whilst pensions were to be determined on a 'career average' rather than final salary basis (ibid: 31). Thus, in terms of the size, pay and conditions of the public sector workforce, the Coalition initiated a sustained period of retrenchment (Hall, 2011). Furthermore, these cutbacks were not designed as a 'temporary' fix to the UK's fiscal problems. For example, in his 2014 Autumn Statement, Osborne acknowledged that public sector pay freezes had delivered £12 billion of savings over the parliament. However, he went on to note that, "by continuing to restrain public sector pay we expect to deliver commensurate savings in the next Parliament until we have dealt with the deficit" (Osborne, 2014a). The Conservative's strategy was therefore not just concerned with containing public sector employment in response to short-term considerations; its programme involved a fundamental re-constitution of state-economy-society relations in ways which would de-privilege the public sector's position as a complementary component of Britain's finance-led growth model.

In what sense did this process represent a 'two nations' hegemonic project? First, the government was quite clear that its objective was to target and reduce the size of the public sector. For example, on the eve of the 2010 general election, Cameron stated, "in some parts of the country the state accounts for a bigger share of the economy than it did in the communist countries in the old eastern bloc. This is clearly unsustainable" (BBC News, 2010a). However, the task of implementing mass public sector redundancies and a decade-long period of pay constraint was not presented merely as an unavoidable or regrettable result of deficit reduction. Rather, as outlined in Chapter Five, reducing the size of public sector employment was presented as a core element of the Coalition's economic strategy to 'rebalance' the UK economy towards the private sector (Osborne, 2010a). In this way, the government presented achieving large-scale public sector retrenchment as in accordance with the 'general' national interest. Accordingly, opponents of the policy - in particular the large public sector trade unions - were characterised as pursuing 'sectional' interests at the expense of taxpayers. The Conservatives were clear that any public sector recalcitrance would be dealt with politically. For example, Oliver Letwin, a key member of the Cabinet who has been described as the 'architect' of the government's public sector reform programme, outlined the way in which the Conservatives would utilise the state in order to weaken public sector employees' bargaining position (Toynbee & Walker, 2015: 68). Speaking at the consultancy firm KPMG in 2011, he said that it was necessary for “fear and discipline” to be instilled into public sector employees in order to drive up productivity rates. He added that large scale public sector redundancies would be an “inevitable and intended consequence” of government policy (Boffey, 2011). Partly as a result of this strategy, by 2014 public sector workers had experienced a real terms pay cut of £2,245 relative to 2010 (TUC, 2014b). However, when trade unions formulated a response to this unprecedented decline in real wages, the Chancellor immediately presented them as acting against the ‘national interest’. For example, in 2011, in response to mounting trade union pressure and the threat of public sector strikes, Osborne insisted that the Coalition’s public sector reforms were, “fair to both taxpayers and public servants. I would once again ask the unions why they are damaging our economy at a time like this – and putting jobs at risk” (Osborne, 2011). At the same time, the Conservatives outlined plans to place new minimum thresholds on strike ballots in order to further restrict industrial militancy. These plans, formalised in the run-up to the 2015 general election, have been described as, “the most sweeping and radical tightening of the rules on industrial action seen since the Thatcher era of the 1980s, with a minimum 50 per cent ballot participation threshold alongside a requirement for unions in ‘important public services’ to obtain a minimum 40 per cent majority of all those eligible to vote” (Darlington & Dobson, 2015: 1). In this way, the Conservatives adopted a classic model of ‘roll back’ neoliberalisation: recalcitrant social groups were identified as barriers to market liberal expansion and state power was strategically deployed in order to drive through their marginalisation (Peck, 2010).

However, as was argued above, ‘two nations’ projects do not only seek to pass the costs of economic adjustment onto subordinate social groups, in this case onto public sector workers. They also seek to seek to build a limited but durable social base of support for broader projects of social, economic and political restructuring (Jessop, 1990: 211). They do this by constructing a ‘moralised antagonism’ between the (perceived) interests of social groups 'privileged' by the dominant accumulation strategy and the interests of marginalised social forces. The Coalition's programme of public sector restructuring at root rested upon a moralised antagonism focussed upon a *'public-private' distinction*. By strategically deploying governing narratives which constructed and entrenched this 'public-private' dichotomy, the government aimed to secure support for public sector retrenchment from key sections of the social base, in particular from private sector workers.

We can see this dynamic at play in the way in which the Coalition justified its implementation of real wage cuts across the public sector. Here, the Conservatives sought to present public sector employees as 'privileged' relative to their private sector counterparts (Bach & Stroleny, 2013: 348). This dichotomy was strongly conditioned by strategic considerations. Specifically, "the government viewed the public sector workforce as key beneficiaries of the previous Labour government. Consequently they assumed that public sector wage restraint would generate little public sympathy for the workforce during a severe recession" (ibid: 345). Between 2008 and 2010, nominal public sector pay rose by 4.5 per cent whilst nominal private sector pay rose by only 1 per cent (Cribb, Emmerson, & Sibieta, 2014: 1). This had occurred because "many public sector workers, including teachers, NHS workers and the police, [were] subject to three-year settlements from 2008 through to 2011. These settlements were made shortly after the 2007 Comprehensive Spending Review, before the recession happened and before it was known that private sector earnings would stop growing" (Cribb et al., 2014: 5). However, since real wages in the private sector declined so rapidly in the immediate post-crisis period, this meant that public sector pay packets were protected in relative terms (Bozio & Disney, 2011: 163). The 'public-private' distinction was utilised by Osborne in order to justify a sustained period of public sector pay retrenchment. For example, when the Chancellor announced that public sector pay increases would be limited to 1 per cent over three years in the 2011

Autumn Statement, he drew attention to the fact that, "public sector pay has risen at twice the rate of private sector pay over the last four years". He then stated that, "while I accept that a 1% average rise is tough; it is also fair to those who work to pay the taxes that will fund it" (Osborne, 2011). As was the case with respect to welfare retrenchment, novel distributional dynamics which had protected the incomes of certain social groups in relative terms in the immediate post-crisis context subsequently became politicised and identified as objects of retrenchment under the Coalition. The result was that the broader context - one of broadly sustained real wage decline across both the public and private sectors - was effectively depoliticised. A large number of factors had contributed to real wage decline in this period. For example, as we saw in the previous chapter, 77 per cent of net job creation between 2010 and 2013 had been in low pay sectors whilst the jobs recovery had been underpinned by a large increase in generally low-paid self-employment (TUC, 2013b). However, by deploying a moralised antagonism between private and public sector workers, the government took advantage of low pay growth to further retrench the conditions of workers in those sectors which for a short period of time had been insulated from the worst of the economic downturn. As Pierson has written, "the contemporary politics of the welfare state is the politics of blame avoidance. Governments confronting the electoral imperatives of modern democracy will undertake retrenchment only when they discover ways to minimize the political costs involved" (Pierson, 1996: 179). In other circumstances, initiating a period of sustained public sector pay retrenchment may have been difficult. However, by mobilising the public-private distinction and by constructing the achievement of public sector pay cuts as in the 'national interest', the Coalition successfully avoided blame for its programme of retrenchment whilst at the same time securing support for its programme of delivering a 'private sector-led recovery'.

After a brief interregnum, pay in the private sector consistently grew faster than pay in the public sector from 2010 - 2014 (Cribb et al., 2014: 1). As Grimshaw and Rubery have commented, "in the course of the roll-out of public spending cuts since 2010 real pay cuts for full time public sector workers have exceeded those for the private sector" (Grimshaw & Rubery, 2015: 212). Projections from the OBR suggested that this dynamic was set to continue into the future: for the period between 2014 and 2018, it projected that, "pay will continue to grow faster in the private sector than in the public sector" (Cribb, Emmerson, et al., 2014: 1). This was no accident. It represented a conscious strategy on the part of the Conservative government to privilege private sector employment growth and to marginalise public sector pay and conditions. As we saw in the previous chapter, this attempt to secure 'rebalancing' between the public and private sector was an elemental feature of the Conservatives economic strategy. However, this dynamic was also replete with political considerations. In particular, this public-private dynamic bore the mark of a classic 'two nations' legitimation strategy. As Jessop and his collaborators have argued in relation to Thatcherism, "a 'two nations' hegemonic project aims, first, to expand the numbers of those in the privileged nation in areas where its privileges are well entrenched... and second, to widen the scope of their privileges" (Jessop et al., 1988: 179). In other words, although 'two nations' projects are *limited* in the sense that they direct material concessions and symbolic rewards to a 'privileged' section of the social base, they are also *expansive* in the sense that they seek to augment the size of those 'privileged' social groups in order to deliver future political support. It is here where the medium-to-long term political strategy of the Conservatives in the post-crisis conjuncture is evident. Specifically, the Conservatives sought to reduce the size of the (typically Labour voting) public sector whilst expanding the size of the (typically Conservative supporting) private sector. As Osborne's biographer has written, the Chancellor's 'grand strategy' involved:

> [T]he calculated use of policy to gradually expand the share of the electorate with a rational interest in voting for his party. Diminishing tax credits for the well off, scything the public sector pay role, capping child benefit - Osborne does not adopt these policies simply because they might boost the size of the electorate that has a rational interest in voting Tory, but that potential outcome very much occurs to him".
>
> (Ganesh, 2012: 264)

This political dynamic finds support in polling analysis from Peter Kellner, who wrote with respect to the 2015 General Election:

> There is a growing divergence between private and public sector workers [in terms of their voting behaviour]. The Tories led Labour by 17 points among people working in the private sector, while Labour lead by three points among public sector workers...if this gulf persists, it's good long-term news for the Conservatives, as private sector employment expands while the public sector contracts.
>
> (YouGov, 2014)

As this suggests, the Coalition's deployment of a 'two nations' hegemonic project in the area of public sector retrenchment fulfilled both short and longer term political objectives for the Conservatives. In the short term, it allowed the government to justify an unprecedented period of public sector wage retrenchment whilst displacing blame for this dynamic through an appeal to 'fairness'. In the longer term, it was hoped, this would create a limited but durable base of support for 'balanced budgets' and public sector residualism in the future - a situation which, naturally, would favour the Conservatives.

6.6 Conclusion

As outlined previously, the key objective of this thesis is to establish the extent to which the Coalition government broke with the 'hybrid' regime of social and economic development which had been established under New Labour. To that end, this chapter has focussed on one element of the Coalition's political economy - it's legitimation strategy - and has concluded that in this area the Coalition's effectively broke with the strategy which had been deployed by New Labour in the pre-crisis conjuncture. Whereas New Labour had deployed a 'One Nation' hegemonic project which channelled material concessions to subordinate social groups through a range of redistributive mechanisms, the Coalition government deployed a distinctive 'two nations' hegemonic project which operated in a fundamentally distinct manner. 'Two nations' legitimation strategies seek to build a limited but durable base of support for programmes of far-reaching social, economic and political reform through entrenching a series of 'moralised antagonisms' between distinct social groups. In the case of the Coalition, two case studies were offered to illustrate how its political programme utilised such a 'two nations' strategy in the post-crisis conjuncture. First, the relationship between welfare retrenchment and real wage decline was analysed. It was shown that by constructing its policies as in favour of 'hard working families' as opposed to working age benefit claimants, the Conservatives successfully managed to secure sufficient support for a policy of welfare retrenchment which actually impacted negatively primarily on the incomes of low-paid 'in-work' households. Second, the Coalition's programme of public sector retrenchment was examined with reference to a constructed 'moralised antagonism' between public and private sector workers. It was shown that this dichotomy helped to legitimise a policy of job cuts and wage freezes which in other circumstances might have been very difficult to implement. One outcome of this strategy was to expand the size of the 'privileged' social group (in this case, private sector workers) which in turn could deliver expanded support for the Conservatives in the future.

It is necessary to draw-out three conclusions from this analysis which relate to the question of legitimation strategies in general and the overall argument of this thesis in particular. First, it is crucial to note the close relation between the kind of hegemonic projects which governments can deploy and the broader success of the national 'growth models' within which these projects are embedded (Jessop, 1990: 209). As was argued in Chapter Two, one of the key weaknesses of the literature on Britain's pre-crisis growth model is that these accounts tend to analytically privilege the ways in which the state facilitated financialisation in the pre-crisis conjuncture, for example by focussing on governmental attempts to encourage the development of 'investor subjectivities' or the constitution of systems of 'asset-based welfare' (Langley, 2008; Watson, 2009a). However, the result is that the growth model perspective misses the way in which New Labour's political economy to a large extent was stabilised and legitimised through an *expansion* of spending on public services and through an increase in state intervention at a variety of spatial scales. In the case of the Coalition government, this chapter has demonstrated that the government's economic strategy (outlined in Chapter Five) fundamentally *conditioned and constrained* the kind of legitimation strategies which the Coalition could advance in office. The objective of achieving deficit reduction primarily through public spending cuts undermined the professed 'One Nation' credentials of the Coalition and made the pursuit of a 'two nations' strategy far more likely, if not inevitable. However, even then, we have seen how within this broader context the Coalition still channelled - to the limit extent that it could - material concessions to strategically significant sections of the population, not least to pensioners and to middle class homeowners through its low interest rate policy. These concessions in turn rested upon the capacity of the state to direct revenues towards these strategically significant sections of the electorate. The broader point is that the legitimacy of the Coalition's political programme still rested upon the relative capacity of the growth model to generate sufficient economic growth to fuel these forms of regressive redistribution. If growth had not returned in 2012, or if a further economic crisis had hit in this period, the political success of the Conservatives in government would most likely have been compromised.

Second, the chapter underlines the key importance of understanding and analysing the importance of *conjunctural trends* in stabilising models of capitalist development over time. Growth models never reproduce themselves in an agent-less manner. They have to be regulated and supported by constant strategic intervention on the part of state actors. In the case of the Coalition, we saw how welfare payments and public sector pay were both relatively protected in the immediate post-crisis period, which led to a relative decrease in income inequality between 2008 and 2013 and a protection of public sector relative to private sector pay between 2008 and 2010. However, these distributional dynamics do not of themselves produce specific policy responses. Rather, in each case, the political reaction to these changes had to be actively constructed by leading forces within the state. For example, the Conservatives capitalised on the generalised decline of real wages to justify and build support for its programme of swingeing welfare reform which - ironically - served to further undermine the incomes of in-work households. The broad point is that policy outcomes are not determined purely by 'ideological' commitments to particular principles; nor are they determined purely by pragmatic considerations related to questions of statecraft. Rather, as the above analysis confirms, it is crucially important to identify the ways in which state managers strategically deploy policy ideas and governing narratives in order to build support for projects of social, political and economic restructuring. In the case of the Coalition, we have seen how the deployment of a 'two nations' hegemonic project served to construct a limited but durable social base of support for continued Conservative dominance and 'balanced budgets' in the future.

Third, if we take these points together - on the relationship between ‘hegemonic projects’ and growth models and on the way in which models of capitalist development rely upon constant rounds of state intervention - this underlines the crucial argument that hegemony is not an ‘achievement’ or ‘end-point’. It is instead a *process* which has to be “worked on’, maintained, renewed and revised” (Hall, 2011: 718). As argued in Chapter Five, by 2014 the Coalition had effectively re-established Britain’s pre-crisis growth model of ‘privatised Keynesianism’, albeit after a transitionary period and with some minor modifications. However, as has been argued in this chapter, it re-established this model in a radically reconstituted fiscal climate - one in which fiscal austerity and public sector retrenchment predominated. This meant that the ‘flanking mechanisms’ which had been in place in the pre-crisis conjuncture and which had stabilised Britain’s growth model throughout this period - in particular New Labour’s (limited) redistributive social policies and its expansion of public sector employment - were fundamentally compromised in the post-crisis conjuncture. This opened-up a series of tensions and points of rupture in the overall model of social and economic development which was established under the Coalition. The role of critical scholarship is to isolate these openings and points of rupture in order to outline how subordinate social groups and alternative governing narratives might be mobilised in order to bring about an egalitarian re-constitution of state-economy-society relations. With this in mind, in the following chapter we shall turn to the way in which the Coalition’s programme of public sector retrenchment served to intensify the uneven development of British capitalism in the post-crisis conjuncture.

7. Public sector employment, uneven development and the Coalition

> *In some parts of the country the state accounts for a bigger share of the economy than it did in the communist countries in the old Eastern Bloc… this is clearly unsustainable.*
>
> (Cameron, 2010)

7.1 Introduction

The previous two chapters analysed the extent to which the Coalition government's political economy represented a rupture with the 'hybrid' regime of social and economic development which New Labour had established in the pre-crisis conjuncture. In this regard two broad conclusions were drawn. First, in terms of its economic strategy, the Coalition effectively re-established Britain's pre-crisis 'privatised Keynesian' growth model, albeit after a transitionary period and with some minor modifications. In this respect the Coalition's economic strategy represented continuity with New Labour's approach in the pre-crisis conjuncture. Second, in terms of its legitimation strategy or 'hegemonic project', the Coalition's approach was marked by substantial change. In contrast to New Labour, the Coalition deployed a distinctive 'two nations' strategy which sought to reconcile a programme of fiscal consolidation with a limited but durable base of support for further austerity and Conservative leadership in the future. On this basis, it was concluded that there were elements of both continuity and change in the Coalition's political-economic strategy relative to New Labour's 'hybrid' regime of social and economic development.

This conceptualisation provides a useful framework for understanding the changing shape of British capitalism in the post-crisis conjuncture. However, it is important to acknowledge that this account of continuity and change is only partial insofar as it operates at a particular level of abstraction. Specifically, its analytical focus is largely ‘macro-political’: emphasis is placed upon the political and economic strategies employed by leading political forces within the central state. As a result, the tensions identified within the Coalition’s political economy were presented as operative at the national scale. For example, in the case of the Conservative’s economic strategy, the postponement of the Coalition’s original deficit reduction targets in 2011/2 was explained in terms of two key developments: weak tax revenues (due in large part to the deflationary dynamic precipitated by the Coalition’s austerity programme) and electoral calculations (the acknowledgement that increasing the pace of spending cuts in order to meet the original deficit reduction targets would prove politically hazardous). However, this explanation analytically privileges economic indicators aggregated at the national scale and the strategic positioning of actors working within the central state. As a result, sub-national developments were largely ignored in favour of a methodologically centralist explanation. The same could be said of the preceding analysis of the Coalition’s ‘two nations’ legitimation strategy. This analysis was placed at a ‘mid-range’ level of abstraction (Bertramsen et al., 1991: 107). It analysed how broad distributional shifts in the post-crisis conjuncture – in particular the (temporary) protection of non-working household incomes and public sector pay in a context of sustained real wage decline – created a strategic terrain which the Conservatives could exploit in order to mobilise a limited base of support for its programme of fiscal consolidation. The previous two chapters were therefore limited in the sense that they had little purchase on the ways in which the transition from crisis to ‘recovery’ was marked by patterns of uneven development and spatial divergence throughout the post-crisis conjuncture.

In line with the reformulated regulationist conceptual framework outlined in Chapter Three, this chapter moves beyond this analytical privileging of the national scale and analyses processes of political-economic change at a regional scale of analysis. It does this by focussing on one particular axis of the Coalition's social and economic programme: the sustained retrenchment of public sector and 'state-led' employment between 2010 and 2015. Whilst general government employment increased by nearly 700,000 between 1998 and 2010 (Cribb et al,. 2014: 7), in less than five years the Coalition government reduced the size of the public sector workforce by 600,000 (Bach, 2016: 10; ONS, 2015). Furthermore, the OBR projected that public sector employment was set to decline in total by 1.1 million between 2010 and 2018 (OBR, 2014: 10). This represented what the IFS termed a 'dramatic' contraction in the size of the general government workforce which far exceeded previous periods of public sector employment retrenchment (Cribb et al., 2014: 2). However, the expansion of state-led employment under New Labour and its subsequent contraction under the Coalition unfolded in a systematically uneven fashion across the UK's regions. This chapter offers a distinctive empirical and conceptual analysis of continuity and change in this policy sphere by asking three specific research questions:

1. What role did rising public expenditure play in sustaining employment in the 'ex-industrial' regions under New Labour?
2. How did the Coalition's 'two nations' hegemonic project and fiscal consolidation programme impact on 'state-led employment' in these regions and how was this process sustained politically?
3. What implications did this restructuring of state-led employment within the 'ex-industrial' regions have for the structure of Britain's post-crisis model of capitalism?

The first section re-visits the question of New Labour's 'hybrid' political economy and argues that the Party's 'One Nation' hegemonic project – expressed in particular through increased spending on public services in its second and third terms - played a key role in supporting job creation and economic activity in the ex-industrial regions throughout the pre-crisis conjuncture. As such, it is argued that Britain's pre-crisis growth model was underpinned by a distinctive *regime of spatial redistribution* which partially and temporarily stabilised Britain's pre-crisis finance-led growth model. The second section then identifies how this redistributive mechanism came to be increasingly politicised by the Conservatives from 2008 onwards, as the Party sought to undermine the incumbent Labour government's economic credibility. The third section argues that from the May 2010 onwards this latent crisis narrative developed into a relatively coherent, emergent *regime of sub-national labour market restructuring* under the Coalition, which ostensibly aimed to 'roll back' the increase in government jobs which had occurred under New Labour whilst 'rolling out' new forms of private sector-led employment within the ex-industrial regions. The implementation of this strategy is then reviewed and two key arguments are made regarding the Coalition's programme of sub-national labour market restructuring. First, job losses in the public sector work were concentrated more heavily in the ex-industrial regions and in more deprived localities than elsewhere. Second - contrary to its claims - the Coalition did not deliver a corresponding 'roll out' of private sector renewal and job creation within the ex-industrial regions. In particular, as an analysis of sub-national labour market data shows, net job creation in the ex-industrial regions were generally skewed towards lower paying sectors whilst job creation within the South East was generally skewed towards higher paying sectors. As such, it is argued that the Coalition's political-economic programme intensified the uneven development of British capitalism throughout the post-crisis conjuncture. The chapter then concludes by drawing-out the implications of this analysis for the overall argument of the thesis.

7.2 New Labour, state-led employment and the 'regime of spatial redistribution'

As argued in Chapter Three, New Labour's 'One Nation' hegemonic project played a key role in supporting and stabilising Britain's finance-led growth model throughout the pre-crisis conjuncture (Jessop, 2002: 458). Brown's programme of increasing spending on public services from the 2000 *Spending Review* onwards helped to sustain Labour's electoral base of support and reinforced Labour's political advantage over the Conservatives throughout this period. Crucially, this expansion of public spending effected a limited redistribution of state revenues to subordinate social groups and to geographical regions which might otherwise have been excluded from the growth dividend associated with 'privatised Keynesian' expansion (Crouch, 2009).[107] We can see this dynamic in operation if we look at the growth rate of spending on public services across the UK's regions in the pre-crisis conjuncture. As Figure 7.1 illustrates, between 1999 and 2005 – the period within which Brown's fiscal expansion began to take hold – identifiable expenditure on public services increased on average two percentage points faster in the North than in the South of England.[108] Data from the Treasury's *Public Expenditure Statistical Analysis* series confirms that these trends were particularly pronounced within certain ex-industrial regions. For example, whilst Scotland received £838 more on services per capita than the UK average in 2000/01, by 2005/06 this figure had increased to £1265 (HM Treasury, 2006: 112). Similarly, the North East and North West of England, Northern Ireland and Wales all

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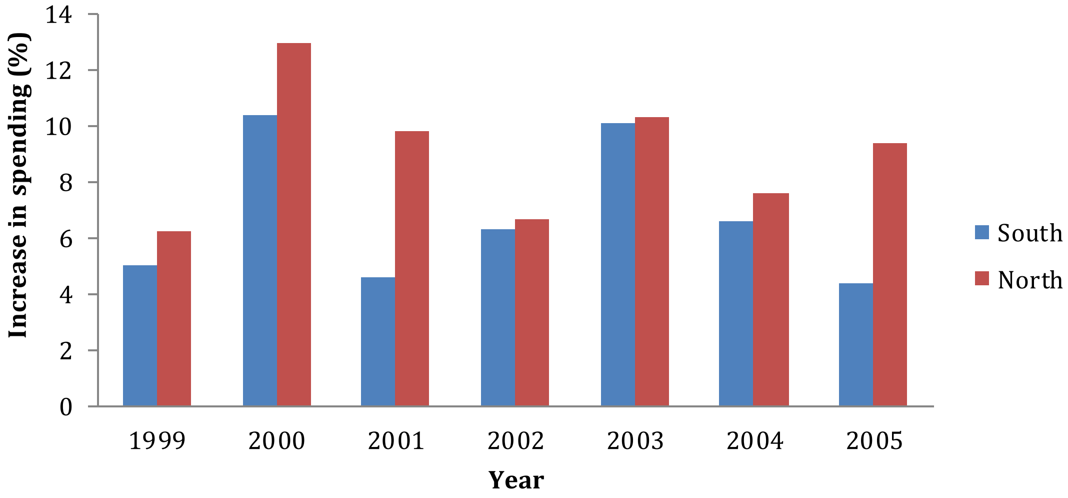
[107] London and the South East have typically received a far greater share of some forms of public expenditure than other regions. This is particularly the case with transport spending per capita. However, it is important to note that transport spending makes up a small proportion of total government expenditure (at around 4 per cent) compared to, for example, Health (18 per cent) and social security (27 per cent) (IFS, 2009: 16).

[108] 'Identifiable expenditure' as classified in HM Treasury Public Expenditure Statistical Analysis series. 'North' includes North East, North West, Yorkshire and Humber, West Midlands, Scotland and Wales; 'South' includes London and the South East. This mirrors the categorisation utilised in: (Rowthorn, 2010).

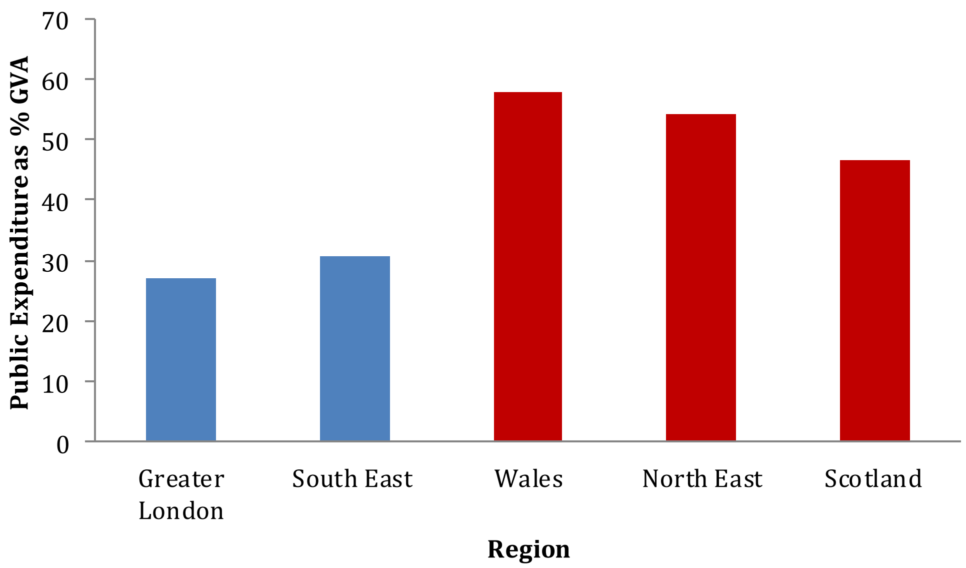
saw increases in their per capita share of spending on services relative to the UK average throughout this period (ibid.). In contrast, the South East of England saw its per capita spend drop from £789 to £1040 below the national average over the same timeframe. As such, although New Labour's finance-led growth model privileged economic sectors clustered in and around London and the South East, an important counter-tendency also was in evidence in this period: regions which were relatively excluded from the 'privatised Keynesian' growth dynamic were partially compensated through growing levels of expenditure on public services (Ertürk et al., 2011; Henderson & Ho, 2014). This steady growth of public expenditure in the ex-industrial regions – coupled with weak private sector economic activity – meant that public expenditure as a proportion of GVA (economic output) remained markedly higher in the North than in the South throughout the pre-crisis conjuncture. Figure 7.2 outlines public expenditure as a percentage of economic output for the years 2003/4 and 2008/9. It shows that public expenditure on average accounted for a far greater proportion of economic output in the Northern regions of Wales, Scotland and the North East as compared to London and the South East. This dynamic was in place across the UK's regions in the pre-crisis conjuncture. For example, whilst in 2003/04 public expenditure accounted for 45.2 per cent of GVA in the North, in the South the figure stood at 30.1 per cent (Rowthorn, 2010: 377).

Figure 7.1: Annual percentage increase in public spending on services in the 'North' and South'



Source: HM Treasury *Public Expenditure Statistical Analysis*, various years. Total identifiable expenditure on services by function, country and region per capita (HM Treasury, 2006: 112).

Figure 7.2: Public Expenditure as Percentage of Economic Output in the North and South 2003 – 2008



Source: (Rowthorn, 2010: 377) [Adapted by author]. Figures equate to average of financial years 2003/4 to 2008/9. Select Regions.

This expansion of spending on public services resulted in rising levels of public sector employment under New Labour (Buchanan et al., 2009; Driver & Martell, 2006:

134). Under John Major's leadership, general government employment had declined by over 350,000. In contrast, between 1998 and 2010 the size of the public sector workforce increased by nearly 700,000 under the Blair and Brown governments (Cribb et al., 2014: 7). However, this expansion of public sector employment did not unfold evenly across the UK regions and localities. Rather, by 2008, the public sector accounted for over 30 per cent of total employment across a large number of localities in the North East of England, Scotland and Wales, whilst across many areas in the South of England it accounted for less than 15 per cent (Grimshaw, 2011: 11). These new public sector jobs also tended to be concentrated in areas with above average rates of unemployment and deprivation. For example, one study outlined how "job growth in the worst 100 districts outside London was overwhelmingly underpinned by the public sector", with these regions creating public sector as opposed to private sector jobs at a ratio of 7:2 (Beatty et al., 2010: 19). The study noted that these areas were "dominated by the old industrial areas" (ibid: 10). In addition, public expenditure expansion produced significant 'multiplier effects' in the sense that increased levels of public sector employment and public investment indirectly helped to sustain employment growth in the private sector (Morelli & Seaman, 2012: 47). For example, one report calculated that "between 2000 and 2003, some 550,000 extra private sector jobs were created as a direct result of public spending" (Glyn & Edmonds, 2005). On this basis, Glyn and his collaborators concluded that "the major reason for the narrowing of the regional employment gap [between the North and the South] in recent years has been the very rapid expansion of jobs *linked directly to public spending*" (Coutts et al., 2007b).[109] New Labour's programme of enhanced public spending therefore had a marked impact on labour markets concentrated in Britain's ex-industrial regions. It boosted employment levels, contributed to increased output and incorporated (regionally stratified) social groups which otherwise might have been excluded from

[109] Emphasis added.

the dividend associated with Britain's dominant 'privatised Keynesian' growth model (Coutts et al., 2007: 12).

It is important to acknowledge that public and private sector employment can be defined differently depending on what classification system is used in one's analysis. This issue has generated a substantial body of literature which offers alternative ways of distinguishing between public sector, private sector and publically-funded employment (Engelen, 2011; Erturk et al., 2012; Julius, 2008; Centre for Cities, 2011; ONS, 2012; Centre for Cities, 2009; Bowman et al., 2015).[110] The implication of this is that the role of the state in funding and sustaining private sector employment is consistently understated by the official classification system (Buchanan et al., 2009: 17; Erturk et al., 2012: 7). As outsourcing, sub-contracting and privatisation increasingly blur the boundaries between the 'public' and 'private' sectors, this presents a considerable problem for public policy analysts, political scientists and state theorists who wish to account for the crucial role that the state plays in regulating and stabilising labour markets in the contemporary period (Buchanan et al., 2009: 17; The Work Foundation, 2010: 10; Whitfield, 2012).

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[110] The ONS, for example, has a very specific definition of what constitutes public sector employment (ONS, 2005). Its classification focuses on the extent to which the government 'controls' the institution in question. In a summary of its classification procedure, it writes, "the difference between the public and private sectors is determined by where control lies, *rather than by ownership or whether or not the entity is publicly financed*" (ONS, 2012: 6).[110] 'Control' on this understanding includes, "the ability to close down the body, who has the final say on sale or acquisition of fixed assets, the ability to change the constitution of a body, and to veto any takeover or acquisitions" (Cribb et al., 2014: 4). As such, the ONS's classification procedure defines a body which falls under the control of a non-governmental organisation but which is wholly or in large part dependent upon public funds as a *private sector* institution. For example, although General Practitioners work predominantly within the NHS and are therefore largely dependent upon public funds for their incomes, they are technically classified as 'self-employed' and are therefore identified as 'private sector' workers under the ONS classification (Cribb et al., 2014: 5). Similarly, university lecturers and outsourced cleaners who work exclusively within state buildings such as schools and hospitals (and who are therefore wholly reliant on public funds for their employment contracts and incomes) are also classified as private sector employees according to the official statistics (Cribb et al., 2014: 5; ONS, 2005). This classification of public sector employment therefore conceals the extent to which large sections of the 'private sector' workforce are in fact wholly or in large part dependent upon public funds for their incomes.

In response to this problem, a range of research institutes and critical accountants have developed alternative classifications of public sector employment which attempt to take into account the expanded role of the state in financing and supporting employment growth across different sectors of the economy.[111] For example, CRESC at the University of Manchester have developed an alternative measure of publically-funded employment, again by reworking the ABI survey rather than by using the pre-defined ONS definition. They term this category of work 'para-state' employment, defined as those sectors which are classified as in the private sector by the ONS but which are "revenue dependent on government funding" (Buchanan et al., 2009: 3). To each of these sectors – which includes activities such as refuse collection, dentistry and nursery education – CRESC attach an employment multiplier, based on their calculations of the extent to which the activities are reliant upon public funds (Erturk et al., 2012: 13; Johal, 2014; ibid.: 18). On this basis, they have calculated that as well as the 5.8 million public sector workers in Britain in 2007, there were an additional 1.7 million employed "as private employees in the para-state sector which is dependent on public support" (Buchanan et al., 2009: 16). In terms of net job creation under New Labour, this means that "the state plus para-state together directly account for 57% all new jobs created" throughout the pre-crisis conjuncture (ibid.).

[111] For example, the Centre for Cities has used a sectoral definition of public sector work using the Annual Business Inquiry (ABI) rather than the ONS's pre-defined classification (Centre for Cities, 2011).[111] On this basis, they demonstrate that 69 per cent of the 1.2 million net additional jobs created in British cities under New Labour between 1998 and 2007 were concentrated in the public sector (Centre for Cities, 2011: 5). Similarly, the Work Foundation has produced an alternative category defined as 'publically-funded employment', which seeks to account for "employment within activities and functions that are predominantly funded by the public purse" (The Work Foundation, 2010: 10). On this basis, they report that between 1998 and 2008, 63.2 per cent of net additional jobs in Britain were in the public sector, whilst the private sector autonomously generated only 26.8 per cent of net additional jobs (ibid: 11). Their data also show that this dynamic was more pronounced in the ex-industrial periphery, with all regions outside of London, the East and South East registering between 27 and 33 per cent of their workforces in the public sector on their definition in 2008 (ibid: 12).

This expansion of state and para-state employment was particularly pronounced in the ex-industrial regions. For example, whilst CRESC calculate that over two-thirds of the 400,000 additional jobs generated in London between 1998 and 2007 were in the private sector, their figures show that the West Midlands saw a net *decline* in autonomous private sector employment over this same nine year period (Ertürk et al., 2011: 11; see also: Brinkley, 2012: 16). Instead, jobs growth in this region was driven primarily by public sector and 'para-state' employment, such that 179 per cent of net job creation between 1998 and 2007 was dependent on public funding (Ertürk et al., 2011: 16). A similar dynamic can be seen across the ex-industrial heartlands throughout the pre-crisis conjuncture.[112] As outlined in Figure 7.3, in the North East of England, 73.1 per cent of net job creation was concentrated in the state and para-state sectors. In Yorkshire and Humber, the figure was 66.8 per cent; in Scotland the figure comes in at 59.3 per cent (Ertürk et al., 2011: 11). As CRESC summarise, "in London and the South, [state and para-state employment] accounts for no more than 34% - 38% of employment growth between 1998 and 2007; while in the Midlands, North, Wales and Scotland, [state and para-state employment] accounts for between 55% and 73% of the employment growth over the same period" (Buchanan et al., 2009: 21).

Figure 7.3: Private Sector and State/Para-State Job Creation (1998 – 2008)

Region	**Total (net job creation between 1998 and 2008)**	**Private Sector (% of net job creation)**	**State and Para-State Sector (% of net job creation)**
North East	85,372	26.9	73.1
North West	215,535	38.4	61.6

[112] Regions are defined using the NUTS 1 classification level. The 'ex-industrial regions' refers to the North East, North West, Scotland, Wales, West Midlands, East Midlands and Yorkshire and Humber.

Yorkshire and Humber	182,627	33.2	66.8
East Midlands	138,857	40.0	60.0
West Midlands	64,609	-79.0	179.0
East	204,884	45.9	54.1
London	404,438	67.2	32.8
South East	332,643	56.4	43.6
South West	289,744	54.7	45.3
Wales	144,955	45.6	54.4
Scotland	258,542	40.7	59.3
Total	2,322,206	45.4	54.6

Source: (Erturk et al., 2012: 15).

These figures draw attention to an important but often overlooked dimension of New Labour's political economy. On the one hand, Britain's pre-crisis growth model distributed wealth and income differentially across the UK regions. House price inflation, levels of equity available for release and employment opportunities within the financial and business services were all disproportionately concentrated in and around London and the South East (Kitson et al., 2011; Martin et al., 2015; Montgomerie & Büdenbender, 2015). On the other hand, New Labour's 'One Nation' hegemonic project produced a distinctive countertendency to this spatial imbalance, as expanded spending supported employment growth in labour markets concentrated within the ex-industrial periphery. As such, New Labour's 'hybrid' model of social and economic development was underpinned by a relatively coherent *regime of spatial redistribution* which effectively recycled state revenues to Britain's ex-industrial regions throughout the pre-crisis conjuncture. This revenue recycling mechanism (partially and temporarily) stabilised Britain's finance-led growth model and served to incorporate subordinate, regionally stratified social groups into the dominant mode of development.

Jim Tomlinson has characterised this dynamic of publically-funded job creation under the Blair and Brown governments as an example of 'local Keynesianism' (Tomlinson, 2012: 215). He writes:

> Whereas traditional Keynesianism sought to offset the failings of the private sector to provide jobs by operating at the level of the national economy, typically through the manipulation of fiscal and monetary policy, 'local Keynesianism' has acted differentially to compensate for the feeble growth of private sector jobs across many of the less prosperous parts of the country.

(Tomlinson, 2012: 205)

Tomlinson's analogy captures the enduring importance of state expenditure in sustaining sub-national employment in the pre-crisis conjuncture. However, as was shown in Chapter Three, he goes on to argue that these increases in government expenditure demonstrate that the New Labour government was in essence *'non-neoliberal'* (Tomlinson, 2012: 220). However, viewing neoliberalism as involving a 'withdrawal' of the state from the organisation of social life mistakes the self-professed ideology of neoliberalism for the logics and dynamic tensions which it embodies as a politically constituted form of market rule (Brenner & Theodore, 2002). Neoliberalisation is in fact an inherently contradictory and tension-laden process of socio-economic restructuring which characteristically involves the *redeployment* rather than *retrenchment* of state power (Peck et al., 2012: 262; Peck, 2010). Market liberal expansion can – and often does – lead to increased levels of public expenditure, as governments attempt to cope with the social costs and unintended consequences of extending the scope of the market into previously de-commodified social domains. Increased unemployment bills and the high cost of policing dispossessed social groups are both good examples of how processes of neoliberal restructuring often result in a "paradoxical increase in [state] intervention" (Farrall, 2006: 272; Jessop, 2002: 454) As such, the enduring importance of government spending in supporting employment in Britain's ex-industrial regions does not provide us with sufficient grounds to characterise the New Labour project as 'non-neoliberal'. Rather, it is better to conceptualise this dynamic as involving the development of a series of *flanking mechanisms* - understood as supporting institutions and non-market forms of coordination/regulation - which (temporarily) stabilised emergent contradictions and instabilities within Britain's pre-crisis model of capitalism (Graefe, 2006: 69; Jessop, 2007: 286; Jones & Ward, 2002: 483). In this sense, expanded levels of state-led employment were *complementary to* the continued expansion and stabilisation of 'privatised Keynesian' growth in the pre-crisis period.

However, it is important to note that the stabilising effect which this process had was not a deliberate outcome of New Labour's regional policy (Buchanan et al., 2009: 2; Tomlinson, 2012). On the contrary, New Labour defined itself against 'old' forms of regional intervention which had purposefully aimed to redistribute resources and jobs from the centre to regions with high levels deprivation (Martin & Sunley, 2014). For example, in 2002 Gordon Brown criticised the post-war regional policy paradigm, claiming that it involved an 'inflexible and top-down' form of "ambulance work getting help to high unemployment areas – central government providing first aid" (Brown, 2003). The Labour leadership characterised discretionary interventions to redistribute resources to laggard regions as 'market distortions' which were imprudent and therefore unsustainable in a globalised era (Pike & Tomaney, 2010: 90; Swyngedouw, 2000: 72). Instead, the Treasury and other government departments consistently advocated a classically neo-liberal 'supply-side' conception of regional development (Mcgregor & Swales, 2005). The government argued that localised labour market problems persisted because of inadequate skill formation and the 'work-shy' attitudes of some citizens living in these areas. These supply-side barriers rendered workers in the ex-industrial regions "unable to compete successfully for the vacancies available" (HM Treasury, cited in: Theodore, 2007: 932). The key logic at the heart of New Labour's explicit regional policy was therefore to deploy governmental power in order to remove these barriers. In this vein, Treasury documents from the period stated that,

> Within every region there remain localised pockets of high worklessness and deprivation…[however] local authority districts that suffer from low employment rates do not simply lack jobs. Many are found alongside other districts with large numbers of vacancies or jobs, while many more contain a high proportion of people with multiple barriers to work…the Government's goal of full employment in every region therefore requires policies to address the barriers which prevent local people from taking local jobs.
>
> (HM Treasury, 2002: 71)

New Labour's programme of labour market reform was therefore premised upon a particular conception of regional competitiveness. Employment growth relied upon the existence of five interdependent supply-side "drivers" of productivity growth, including "enterprise, skills, innovation, private investment and competition" (Martin, 2010: 36). In accordance with this conception of regional development, the government promoted a series of schemes which sought to promote, "training, job-readiness, programming and unemployment-benefit reforms that encourage...rapid entry into work" (Cabinet Office, 2002: 36).[113] However, in spite of this explicit

[113] For a definition of the neo-liberal conception of labour market 'flexibility' see: Van Apeldoorn, 2003: 67.

commitment to a supply-side regional policy, New Labour's expansion of public spending from 2000/1 onwards and the corresponding growth of state-supported employment in the ex-industrial regions did in fact produce a redistributive dynamic between the 'centre' and labour markets concentrated within the ex-industrial periphery (Coutts et al., 2007; Ertürk et al., 2011: 30). In spite of New Labour's supply-side conception of regional economic development, net job creation in these areas remained predominantly dependent on public spending as a source of aggregate demand (Coutts et al., 2007b; Glyn & Edmonds, 2005). For this reason, New Labour has been characterised by some observers as employing an 'undisclosed' or 'covert' regional policy which was no less significant for its clandestine nature (Buchanan et al., 2009: 2; Coutts et al., 2007: 13; Toynbee & Walker, 2011: 91).

For these reasons, it is important to emphasise that the 'regime of spatial redistribution' established under New Labour was not the conscious product of government policy. Nor did it emerge simply because it was 'functional' to the continued expansion of Britain's growth model in the pre-crisis conjuncture. Rather, the increase in state-led employment in the ex-industrial regions was the largely unanticipated result of New Labour's 'One Nation' legitimation strategy. Brown's expansion of spending on public services - driven forwards by a combination of internal party pressures, electoral calculations, as well as a residual normative commitment to (limited) forms of redistribution - produced unintended regional effects which in turn served to contain the uneven development of British capitalism throughout the pre-crisis conjuncture. As successive regulation theorists have argued, institutional complexes which emerge to (temporarily) stabilise capitalist development are best thought of not as conscious designs but rather as "chance discoveries made in the course of human struggles" (Jessop, 2013: 9; Lipietz, 1987: 15; Painter & Goodwin, 1995: 346). New Labour's 'regime of spatial redistribution' is best viewed in this light. This in turn suggests that there was an important relation between New Labour's 'One

Nation' hegemonic project on the one hand and expanded state-led employment at the sub-national scale on the other. It is important to bear this relation in mind as we move to analyse the restructuring of the state-led employment under the Coalition in the post-crisis conjuncture.

7.3 The politicisation of state-led employment in the 'ex-industrial' regions

As was acknowledged in the introduction, the previous chapters analysed processes of political-economic continuity and change largely by focussing on national-level indicators and the strategies employed by politicians within the central state. This meant that the *uneven development* of British capitalism in the pre- and post-crisis conjunctures remained largely un-investigated. However, as the previous section demonstrates, New Labour's 'One Nation' hegemonic project had profound spatial implications. Brown's expansion of public spending from 2000 onwards produced a distinctive *regime of spatial redistribution* which recycled revenues from the finance-led core to labour markets concentrated in the ex-industrial periphery. However, the way in which spatial considerations tend to condition and shape processes of social and political change is often overlooked within the political science literature (Bates & Smith, 2008). Approaches which focus on governmental institutions or nationally aggregated data therefore run the risk of offering, "a single account … of a whole space … in which certain local stories or external connections are suppressed, and in which the experience of a particular part is passed off as an adequate summary of the whole" (Sayer, 2000: 119). In order to overcome such a 'mono-spatial' approach, it is essential to acknowledge the *relational* nature of socio-spatial organisation within advanced capitalist societies: that is, to render explicit the mechanisms which combine 'macro-political' dynamics on the one hand with forms of sub-national socio-economic development on the other (Massey, 2005: 9). In this vein, Figure 7.4 provides an ideal-typical representation of the relation between 'national' legitimation strategies on the one hand and forms of sub-national socio-economic development on the other. In the left-hand column, the key features of New Labour's 'One Nation' hegemonic project are summarised. The way in which this 'national' governing strategy shaped and conditioned sub-national socio-economic development is detailed in the lower-left quadrant. In the upper right-hand quadrant, the key features of the Coalition's 'two nations' hegemonic project as these were outlined in the previous chapter are also summarised. The implications which this process had at the sub-national scale are sketched-out in the lower right-hand quadrant. The remainder of this chapter will be concerned with examining in greater detail the way in which this shift to a 'two nations' strategy[114] shaped and conditioned the re-composition of labour markets at the sub-national scale throughout the post-crisis conjuncture.

Figure 7.4: Hegemony and sub-national development in the pre- and post-crisis conjunctures

	'One Nation' Hegemonic Project under New Labour	**'Two Nations' Hegemonic Project under the Coalition**
Timeframe **National Strategy**	*Pre-crisis conjuncture* (1997 – 2008) *Economic Context:* *Expanding revenue base/ low interest rates/ capacity to borrow in order to fuel (limited) increases in public spending*	*Post-crisis conjuncture* (2010 – 2015) *Economic Context:* *Deficit reduction through spending cuts as (discursively constructed) priority. Considerable constraints on*

[114] This was closely related, of course, to the Coalition's programme of fiscal consolidation. See Chapter Six for further details.

	<u>*Strategic Goal:*</u> *Expand or at least maintain electoral base/ secure internal party cohesion /incorporate 'excluded' groups into dominant social model* <u>*Distributional implications:*</u> *Expanded spending on public services and on social policies (redistribution by stealth)* *Increase in size of public sector workforce. Reductions in child poverty, income inequality growth partially constrained through tax and benefit system*	*revenue base and on borrowing.* <u>*Strategic Goal:*</u> *Reconcile programme of fiscal consolidation with limited base of support for further austerity and Conservative leadership in the future* <u>*Distributional implications*</u> *Welfare retrenchment/public sector expenditure cuts* *Erosion of flanking mechanisms which constrained inequality growth and reduced relative poverty. Pay freeze/ job cuts throughout public sector*
Sub-national implications	***Regime of Spatial Redistribution ('Local Keynesianism')*** <u>*Key mechanisms*</u> *Expanded levels of state-supported employment at sub-national scale*	***Regime of sub-national labour market restructuring*** <u>*Key mechanisms*</u> *Public sector employment retrenchment coupled with attempts to encourage 'private sector-led' recovery*

	<u>Impact on uneven development</u> *Temporary and partial stabilisation of uneven development through state expansion and emergence of 'flanking mechanisms' in ex-industrial labour markets*	*<u>Impact on uneven development</u>* *Tendency towards increased uneven development through erosion of regional 'flanking mechanisms', low pay job creation and failure to 'rebalance' UK economy*

Between 2005 and 2008, the issue of rising public sector employment was not an area of major political contestation between Britain's two leading political parties (Tomlinson, 2012: 205). This was because, as was outlined in Chapter Five, a broad bi-partisan consensus had (briefly) emerged in this period relating to the need to prioritise investment in the public services over promising future tax cuts. This meant that neither the Labour government nor Cameron's Conservatives had the incentive to overtly politicise the regional implications of New Labour's 'hybrid' regime of social and economic development (Smith, 2010: 818). In the case of Labour, insofar as the Blair/Brown governments acknowledged the large expansion of state-led employment which had taken place throughout their time in office, this was presented as a positive outcome of the government's 'prudent' economic management and progressive social policies. For example, in *Your Region, Your Choice,* it was argued that, "the success of regions depends in part on getting national policy right [and on securing]... investment in key public services. The Government has put these fundamentals in place...investing in services like health, education and transport (Cabinet Office, 2002: 18). Accordingly, in its manifesto for the 2005 General Election, Labour emphasised how its policies had created more than 133,000 jobs in the education sector and had increased the number of nurses by 79,000 and doctors by 29,000 since 1997 (The Labour Party, 2005: 11). It went on to argue that it was committed to further augmenting public sector employment growth as well as delivering improvements in service delivery across the regions (ibid: 27). In a post-election analysis, Cabinet minister Liam Byrne specifically identified increased levels of public spending as essential to holding New Labour's regionally-stratified electoral coalition together. Writing in a Fabian Society publication, he said, "our support was based on the bedrock achievements of combining sustained economic stability with the *highest-ever levels of investment in public services*. Labour has been re-elected with a strong cross-class appeal across all of the regions. The challenge now is to maintain and strengthen this coalition in office" (Byrne, 2005: 3).[115] A government spokesman at the time confirmed this approach, saying, "the government is making progress towards its aim of releasing more resources to front line public services…building on the unprecedented numbers of staff delivering better public services in schools and hospitals" (BBC News, 2005). In this way, the expansion of the public sector investment and employment growth across the regions was presented as a positive outcome of Labour's 'prudent' macroeconomic management and as an essential component of its future re-election strategy (Smith, 2010: 821).

Interestingly, in the period immediately after the 2005 election, the Conservatives were relatively silent on this issue of public sector employment growth. They did not identify this policy area as a major point of contestation between themselves and the incumbent Labour government. As was argued in Chapter Five, between 2005 and 2008 the Conservative leadership adopted a strategy of 'policy emulation' through which it aimed to incorporate key elements of New Labour's governing programme into its own policy platform. As we saw, this strategy culminated in September 2007 when Osborne committed to Labour's spending plans and ruled-out

[115] Emphasis added.

further tax cuts over the following three years (Barker, 2007). Whilst this dynamic has been identified elsewhere as a key element of the Conservative's political strategy in the first few years of Cameron's leadership (Dorey, 2009; S. Evans, 2008; McAnulla, 2010), far less attention has been paid to the way in which this strategy strongly conditioned the Conservative's approach to regional policy over this same period. A review of key speeches, policy documents and Party publications between September 2005 and October 2008 reveals that the issue of rising state-led employment in the regions was barely acknowledged - let alone identified as a central economic problem - in the 'policy emulation' period by the Conservative leadership. Instead, Cameron and Osborne largely side-lined the issue on the grounds that "any deviation from [the] Labour government's macroeconomic fiscal policy would be mercilessly portrayed as an assault on public services" (Ganesh, 2012: 186). The Conservative's silence on this issue was therefore driven by three strategic calculations. First, problematizing the growth of state-led employment in the regions would have undermined the leadership's central economic narrative at the time, which emphasised how investment in the public sector would continue under a Cameron-led government (Blitz, 2006). Second, and relatedly, polling evidence from this period underlined the importance to the Conservatives of securing the support of key sections of the public sector workforce if the Party was to increase its vote share in the subsequent general election (Sanders, 2006). This led to "a concerted effort to win support within certain parts of the public sector workforce" between 2005 and 2008 (Bale, 2008: 277; Williams & Scott, 2010).[116] For example, in a speech in 2006, Cameron affirmed his commitment to public sector workers, stating that, "anyone working in the public services could easily have heard a pretty negative message from my Party: 'there's too many of you, you're lazy and you're inefficient.' This is far from how I see things" (Cameron, 2006a). In this

[116] For example, in March 2008 Cameron appointed a specific envoy to the TUC and suggested that he would be willing to speak at the TUC Annual Conference – a first for any Conservative leader. Although widely dismissed as a 'publicity stunt' this represents an important symbolic shift in the policy emulation period.

way, latent Conservative discourses problematizing the growth of public sector employment were largely marginalised during the 'policy emulation' period. Third, a core aspect of Cameron's strategy was to make in-roads into Labour territory by improving its electoral fortunes in the North (Evans, 2008: 307). After the May 2006 local elections – eight months after Cameron had assumed the leadership of the opposition - the Conservatives "had failed to break out of its Southern Fortress and establish an urban presence in such northern cities as Manchester, Liverpool and Newcastle" (ibid.). Reversing this dynamic therefore became a key electoral objective (Bale, 2008: 276). With this in mind, Cameron created 'Campaign North' – an organisational branch of the Party headed by ex-leader William Hague – which aimed to improve the representation of the Conservatives in the ex-industrial regions (ibid). However, since on some calculations up to 69 per cent of jobs created in Northern cities were either directly or indirectly dependent on the public sector, 'politicising' the issue of state-led employment in these regions could have undermined the Conservative's attempt to expand its electoral base (Larkin, 2011: 5; Tomlinson, 2012: 205). As a result, throughout the 'policy emulation' period, the Conservatives chose to not overtly politicise the issue of rising public sector employment in the regions.

The logic of this approach is perhaps at its clearest if we consider the politics and discourse of the Conservatives at the sub-national scale in this period. In the run-up to the 2007 elections to the Scottish Parliament, the Scottish Conservatives did identify high public sector employment growth as an economic problem. However, it placed responsibility for this dynamic at the hands of the incumbent *devolved* administration rather than as an outcome of the (national) Labour government's fiscal framework. The Conservative's Scottish manifesto stated:

> The *Lib-Lab Pact* [within the Scottish Parliament] has also disproportionately increased the size of the public sector in relation to the rise in the number of workers whose pay cheques are signed by

> private sector employees. There are now over 50,000 more public sector employees than there were in 1999. Scotland's public sector is now swallowing up over 50% of our GDP. This needs to be reversed. Expanding the public sector at the expense of the wealth-creating private sector is unsustainable.[117]

(The Scottish Conservative Party, 2007)

In this way, blame for the 'unsustainable' increase in public sector employment in Scotland was apportioned to the governing Liberal/Labour Coalition at Holyrood. What this eschewed was the fact that departmental spending levels are a 'reserved' matter: they fall under the competence of Whitehall (Lynch, 2001: 16). However, by framing public sector employment growth as the result of mismanagement by the devolved administration, the Scottish Tories could entrench a dividing line between themselves and the other Scottish parties whilst - crucially - not undermining the (national) Party's narrative that it would in fact increase public spending broadly in line with Labour.[118] This, in combination with concerted efforts by the Conservative leadership to "neutralise the issue of tax and spend" meant that the question of increased state-led employment in the regions was effectively (albeit temporarily) 'depoliticised' by Cameron's Conservatives in the pre-crisis conjuncture (Flinders & Buller, 2006; Ganesh, 2012: 186; Wood, 2015).

However, in the immediate aftermath of the 2008 financial crisis, the Conservative's economic narrative and political strategy began to change rapidly (Smith, 2010: 827). As was argued in Chapter Five, in this period the opposition moved from a strategy of 'policy emulation' to one of 'differentiation' from Brown's embattled Labour government. Whilst this shift has been acknowledged elsewhere in the literature, most of these accounts have focussed on the way in which the Conservatives

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117 Emphasis added

118 In the event, the Scottish Conservatives saw a decline in their seats in 2007.

'narrated' the crisis through an appeal to macroeconomic indicators such as the national debt and budget deficit (Clift, 2012; Hay, 2010a; Smith, 2010: 818). As such, less attention has been paid to the way in which this tactical re-positioning precipitated a marked reformulation of the Conservative's spatial strategy in this period. However, from 2008 onwards, the Conservatives increasingly argued that the growth of state-led employment in the ex-industrial regions was both a *consequence* of Labour's reckless management of the economy as well as a *cause* of regional under-development (Froud et al., 2011; Tomlinson, 2012: 205). Whilst this dynamic had been largely ignored and thereby depoliticised in the 'policy emulation' period, from 2008 onwards it increasingly formed a key motif of the Conservative's political discourse and spatial strategy. Accordingly, in the period of 'differentiation' we can identify an emergent politicisation of the issue of state-led employment in this period as well as a corresponding shift in the Conservative's spatial strategy (Wood, 2014: 10).

There is considerable documentary evidence which corroborates this basic shift in the Party's orientation. For example, a content analysis of media reports between 2001 and 2010 reveals that the 'rebalancing' discourse only became a prominent issue in the public debate after the 2008 financial crisis (Froud et al., 2011: 5). This narrative was increasingly pushed by Osborne and the Conservative leadership for two principal reasons. First, it capitalised on the perception that the Labour Party - as opposed to external 'market forces' - was responsible for the 'imbalanced' state of the British economy as well as for the perilous state of the public finances (Berry & Hay, 2015: 4; Osborne, 2010a). Second, it prepared the ground for a distinctive programme of action oriented towards 'rebalancing' the British economy away from the public and towards the private sector (Froud et al., 2011). These interrelated objectives combined into a relatively coherent crisis narrative and spatial strategy between the 2008 crisis and the May 2010 General Election. Speaking in January 2010, for example, Cameron asserted that, "in some parts of the country the state accounts for a bigger share of the economy than it did in the communist countries in the old eastern bloc... this is clearly unsustainable" (BBC News, 2010a). He then proceeded to outline the Conservative's proposed solution to this problem, stating that, "we need a bigger private sector. There are other parts of the country, including in the north-east [where the public sector is too large]. The aim has got to be to get the private sector, to get the commercial sector going" (Smith, 2010; Watt, et al., 2010). The Conservative Manifesto – launched in April 2010 – corroborated this approach, arguing that, "over the last decade, growth has been too dependent on government spending…more than half of the new jobs created were driven by public spending" (The Conservative Party, 2010). The manifesto included a map of the UK which represented how London and the South East contributed disproportionately to British economic output relative to other UK regions (ibid.: 22). Alongside this graphic, the manifesto asserted:

> Too many areas of the UK lack a vibrant private sector and are too dependent on public spending. These regional imbalances have got worse over the last decade…Our aim is to increase the private sector's share of the economy in every part of the country by boosting enterprise and creating a better business environment
>
> (The Conservative Party, 2010: 23)

Although these arguments reflected a long-standing Conservative antipathy to the public sector, the use of the 'rebalancing' discourse only became a prominent element of the Conservative's economic narrative and spatial strategy in the post-crisis conjuncture (Berry & Hay, 2015: 4). However, in the period immediately before the May 2010 election, the Conservatives down-played the extent to which they would pursue a programme of fiscal consolidation so as to not alienate strategically significant electoral groups (Hay, 2010b: 395). Rather than specifying precisely where public spending cuts would fall, they instead "appealed for a general mandate to bring down the deficit" (Gamble, 2012: 64). One implication of this was that the Conservatives remained relatively mute about their plans to cut the size of the public sector workforce in the immediate pre-election period. Although they alluded to the need to correct the 'imbalance' between the public and private sectors, the Conservative leadership refused to explicitly outline how this would be addressed through public expenditure cuts. It was therefore not until after the Conservatives were in office that the details of its austerity programme and its corresponding impact on the ex-industrial regions became apparent. Between June and October 2010 – the period which was characterised previously as a phase of 'strategic positioning' – the impact of the Coalition's programme of public sector employment retrenchment upon the ex-industrial regions became visible for the first time (Grimshaw, 2013). In his first speech as Prime Minister, Cameron's tone became more trenchant as he prepared the ground for a prolonged period of public sector employment retrenchment, stating that the British economy had, "become far too dependent on the public sector, with over half of all jobs created in the last ten years associated in some way with public spending' (Cameron, 2010d). A month later, in his June 2010 Budget Statement, Osborne echoed this analysis, stating:

> Over the past decade the British economy has become deeply unbalanced. Nowhere are these disparities as marked as between the different regions of Britain. Between 1998 and 2008, for every private sector job generated in the North and the Midlands, 10 were created in London and the South. We need a new approach.

(Osborne, 2010b)

By the time of the October 2010 *Spending Review*, the Conservative programme of public sector employment retrenchment had therefore evolved from a latent crisis narrative designed to undermine Labour's position into a coherent programme of action (Taylor-Gooby, 2012). The decade-long expansion of public sector employment under the Blair and Brown governments – which had formed a key element of New Labour's *regime of spatial redistribution* – was over (Cribb et al., 2014: 2). In its place, we can identify the emergence of relatively coherent *regime of sub-national labour market restructuring* under the Coalition. This emergent programme of action was underpinned by two distinctive restructuring logics. The first was that it was embedded within a wider macroeconomic context which produced a dynamic of '*roll back' neoliberalisation* at the sub-national scale (Peck, 2010: 22). In its June Budget Report, the OBR projected that 490,000 public sector jobs would be lost between 2010/11 and 2014/15. Leaked Treasury briefings from this period revealed that the government anticipated that the figure could amount to 600,000, whilst the Chartered Institute of Personnel and Development (CIPD) estimated that the figure would be higher still at 725,000 (CIPD, 2011: 2; Elliott, 2010a).[119] However, these projections only calculated the impact of the cuts to public sector employment at the national scale. Given the disproportionate size of state-led employment in the ex-industrial regions, the government's fiscal consolidation programme was expected to impact more severely on localities outside of London and the South East (Engelen et al., 2011: 216; PwC, 2010: 18). Cities such as Newcastle, Swansea and Barnsley in particular were highlighted as areas which would bear a particularly high proportion of the cuts (Larkin, 2010). As such, the first logic which underpinned the Coalition's regime of sub-national labour market restructuring involved a *rolling back* of public sector employment in those regions which were disproportionately reliant upon publically-funded work.

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[119] As noted in Chapter Five, the scale of public sector job cuts was in fact considerably larger than these early projections anticipated. For example, as early as 2012, the OBR had re-calculated that 730,000 general government jobs would go by 2015-16 (OBR, 2012). The total figure of general government (i.e. central and local government) jobs which were lost between 2010 and 2015 came in at just under 594,000, equivalent to 10 per cent of the government workforce (Bach, 2016: 10).

This dynamic was coupled with a second, complementary dynamic of '*roll-out' neoliberalisation* (Peck, 2010b: 22). Large scale public sector job cuts raised the prospect of a political backlash against the Coalition's austerity programme, from both state employees and from the population in general. Part of the government's response to such opposition was to argue that public sector job cuts were an inevitable part of its deficit reduction programme (Bach, 2016). For example, when the number of projected public sector job cuts increased in 2011, the Treasury responded by saying that these additional job cuts were an essential and inevitable feature of its plan to tackle Britain's deficit (Greenwell, 2011). However, appealing to the 'inevitable' loss of public sector jobs in a context of fiscal consolidation was not the only strategy which the Coalition deployed in the post-crisis period. The government also advanced a distinctive, more 'positive' conception of how public sector employment retrenchment could reinvigorate sub-national economic development. This alternative discourse was underpinned by two distinctive arguments. First, the government argued that public sector employment cuts would itself initiate a process of *autonomous private sector job creation.* Specifically, from the publication of the Coalition's *Programme for Government* onwards, the Conservative-led administration argued that public sector jobs were 'crowding out' private sector investment and employment growth in the ex-industrial regions (Pugalis & Bentley, 2013: 665). Cutting-back on the size of the state in these areas would therefore encourage increased levels of private sector investment and job creation (Clift, 2012: 20). Second, the Coalition developed a series of policy proposals which were specifically oriented towards supporting private sector employment creation in the ex-industrial regions. In the June 2010 Budget, for example, Osborne announced the creation of the 'Regional Growth Fund' (Pugalis & Bentley, 2013: 669). This would provide finance specifically to private sector employers in the ex-industrial regions (Osborne, 2010b). In addition, Osborne announced a new tax scheme worth £900 million which exempted employers outside of London, the South East and East of

England from National Insurance Payments for the first ten workers which they employed (ibid.). These manoeuvres were designed to deflect fears that the Coalition's austerity package would "turn regions that are dependent on public sector employment into wastelands" (Elliott, 2010b). By October 2010, then, the *regime of spatial redistribution* which had emerged under New Labour had been politicised and identified as an object of retrenchment by the Coalition. In its place, an emergent *regime of sub-national labour market restructuring* began to take shape throughout the post-crisis conjuncture. This regime was premised upon a combination of state withdrawal ('roll back' neoliberalisation) and state-supported private sector expansion ('roll out' neoliberalisation) (Peck, 2010: 22). As we shall in the following section, this project of labour market restructuring did not unfold evenly across the UK's regions. Rather, new patterns of spatial divergence emerged whilst long-standing structural weaknesses were re-embedded into Britain's post-crisis model of capitalism.

7.4 Labour market restructuring across the UK regions

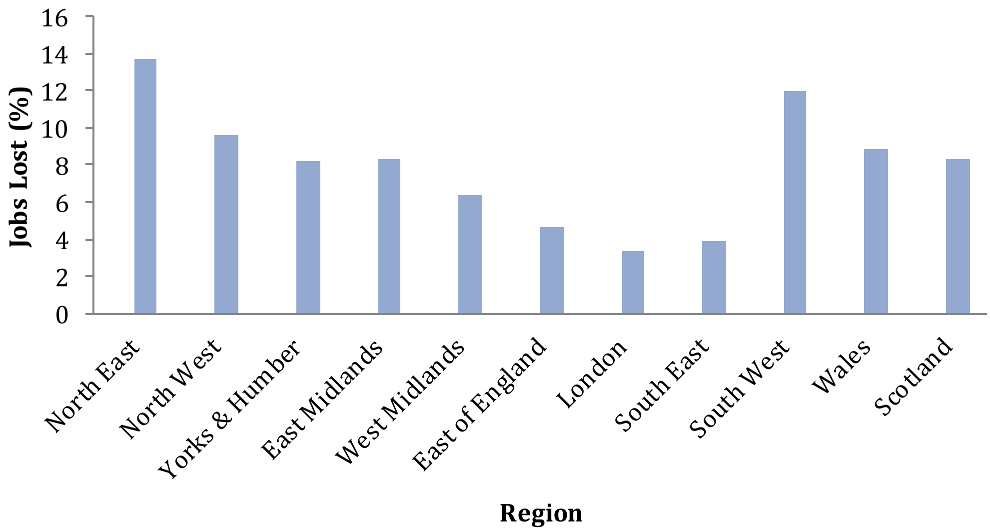
'Roll back' neoliberalisation: public sector employment retrenchment at the sub-national scale

The Coalition's austerity programme precipitated a rapid and large 'rolling back' of public sector employment across Britain (Cribb et al., 2014; Peck, 2010: 22). However, as Figure 7.5 demonstrates, this process impacted unevenly across the UK's regions. The graph outlines the net reduction of public sector employment between Q1 2010 and Q4 2014 using regional data from the *Quarterly Public Sector Employment Survey* (ONS, 2015d).[120] One trend which is particularly noticeable is the relative protection of public sector employment levels within London and the South East relative to other regions within Britain. For example, whilst regions in the North of England lost on average 9.8 per cent of their public sector workforces over this period,

[120] Effects of major re-classifications are excluded.

London and the South East lost only 3.5 per cent. The overall effect of these changes was that the North saw its share of national public sector employment decline from 25.2 per cent to 24.2 per cent, whilst London and the South East increased their share from 23.7 per cent to 25.1 per cent over the same timeframe (Lavery, 2015: 2). The data therefore confirms that in terms of public sector workforce reductions, spending cuts fell disproportionately on "those regions outside London where dependence of the local economy on the public sector is relatively strong … [and which] tend to be characterised by deprived living standards and high unemployment" (Grimshaw, 2011: 11).

Figure 7.5: Public Sector Jobs Lost by Region 2010 - 2014



Source: Office for National Statistics (ONS), *Quarterly Public Sector Employment Survey*. Excluding major re-classifications. Author's own calculations.

A range of different factors influenced the composition of public sector job cuts across the regions throughout this period. For example, one analysis showed that cuts to the size of the civil service were proportionately larger in the ex-industrial North than in London. Whereas civil service employment declined by an average of 17 per cent nationally, within the Capital the figure was lower at 11 per cent (O'Connor, 2015; ONS, 2014b). This suggests that discretionary spending and the privileged status of some civil service posts partially insulated London's public sector workforce relative to other regions. Similarly, the protection of some departmental budgets meant that public sector job cuts were distributed unevenly across different areas of government. This had important implications for the distribution of public sector job cuts across the UK's regions. In particular, local government was earmarked as an area which would be subject to particularly large spending cuts relative to other departments (Crawford et al., 2011: 139; Taylor-Gooby & Stoker, 2011: 7). In the October 2010 *Spending Review,* central government funding streams for local government were cut by 7.25 per cent annually, which amounted to a 27 per cent real terms cut between 2011/12 and 2014/15 (Grimshaw, 2013: 22; Lee, 2011: 16). Since half of local authority spending is accounted for by wage bills, large workforce cuts began to take hold across local authorities from 2010 onwards (Bach, 2012: 402; Grimshaw, 2013: 22). As a result, by 2015, 600,000 jobs had been lost in local government relative to 2010, a figure which accounted for over 10 per cent of the total local government workforce (ONS, 2015d).

However, cuts to local authority budgets were not spread evenly across the UK's regions. Crucially, regions with higher rates of deprivation and unemployment typically generate less council tax revenue and are therefore more dependent on central government grants for their spending power (IFS, 2015: 2). However, since the "main cuts [were] triggered by grant reduction", localities with higher rates of deprivation experienced a larger decline in central government support relative to more affluent regions (Hastings et al. , 2015: 10 - 16). On a regional basis, the North East, Yorkshire and Humber and the North West saw the largest cuts to their local authority budgets, with each region experiencing cuts which were between 45 and 80 per cent above the UK national average (Berry & White, 2014: 1). In contrast, the East of England and South East each experienced local authority cuts 35 and 45 per cent *below* the national average respectively. This geographical distribution of local authority spending cuts was paralleled by (and over-lapped with) a second trend: areas with higher levels of deprivation experienced far larger average cuts to their local authority budgets (Hastings et al., 2015: 5). For example, whereas the ten most deprived English districts experienced cuts averaging 25.3 per cent over the Coalition's period in office, the ten least deprived districts experienced cuts equivalent to 2.54 per cent (Watt, 2014). These budgetary pressures created a situation in which local authorities had little option but to cut-back on their workforces (Bailey et al., 2015). However, it is again important to note that this pressure was more severe in localities concentrated in the 'ex-industrial' North than in regions in and around the Greater South East. As the Centre for Local Economic Strategies has written:

> [Local authority] cuts...impact more heavily on areas with large councils that previously benefitted from larger levels of formula grant funding to tackle issues of concentrated need and poverty... particularly hard hit are those urban areas where the private sector is relatively weak and offers less employment and opportunity
>
> (CLES, 2014: 20)

For these reasons, we can view the Coalition's programme of public sector employment retrenchment as an emergent programme of 'roll back' neoliberalisation (Peck, 2010: 22). Under New Labour, expanded state-led employment had 'filled-in' for weak private sector investment and economic activity in the ex-industrial regions. In turn, this dynamic had 'flanked' and stabilised Britain's pre-crisis finance-led growth model (Graefe, 2006; Jessop, 2007b; Shaw & MacKinnon, 2010). In contrast, the Coalition's austerity programme rapidly reduced state-led employment. This process in turn had distinctive regional implications: regions which were more dependent on state-led employment generally bore a larger burden of the public sector job cuts. As such, the Coalition's public sector employment retrenchment programme represented a break with the *regime of spatial redistribution* which had emerged under New Labour in the pre-crisis conjuncture (Pugalis & Bentley, 2013: 673).

However, it is important to note that this 'roll back' process was only partial and limited to specific areas of the public sector. Insofar as the Coalition secured large reductions in the size of the public sector workforce in general terms between 2010 and 2015, its project of 'roll back' neoliberalisation was – on this measure at least – successful. However, key social groups – not least strategically significant sections of the electorate – limited the scope of public sector retrenchment throughout the post-crisis conjuncture (Pierson, 2011). This had important implications for the labour market restructuring process throughout the post-crisis conjuncture. For example, as was highlighted previously, the NHS and education budgets were protected in relative terms under the Coalition's spending plans, as the Conservative leadership calculated that this would be an essential prerequisite of securing future electoral support (Keegan, 2014: 5). Using a sector-based definition of the public sector and drawing on data from the *Business Register and Employment Survey* we can outline the way in which this dimension of the Coalition's public sector retrenchment programme produced systematically uneven effects. Figure 7.6 includes the three major 'general government' sectors using the 2007 Standard Industrial Classification.[121] In particular, the table shows that those departmental budgets which were 'ring-fenced' – such as health and education – tended to be associated with continuing job creation over the post-crisis conjuncture. On the other hand, 'unprotected' sectors – in particular public administration – experienced large workforce cuts. As such, although the Coalition's

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[121] Sections O, P and Q of the SIC 2007 correspond to Public Administration, Education and Health respectively. It should be noted that this sectoral definition of public sector employment measures general government employment differently from the *Quarterly Public Sector Employment Survey* (QPES) cited above. As such, the data in Figure 7.6 are not inter-changeable with the data presented in Figure 7.5. The reason that the BRES is used in the above table is that the QPES does not offer a breakdown of general government employment by sector at a regional level.

austerity programme involved a large and rapid reduction in the size of the public sector workforce, this process was also marked by important path dependencies. Certain areas of the public sector were insulated from job cuts relative to other areas. The Coalition's programme of 'roll back' neoliberalisation was therefore strongly conditioned by strategic considerations and by deeply entrenched path dependencies. This in turn had a significant impact on the structure of sub-national labour market restructuring in the post-crisis conjuncture, privileging some sectors as opposed to others.

Figure 7.6: Limits of 'roll back' neoliberalisation: state-led employment retrenchment across regions by sector (2010 - 2014)

	PUBLIC ADMINISTRATION	EDUCATION	HEALTH
North East	-17,357	-228	23,768
North West	-37,544	8727	17,160
Yorkshire and the Humber	-24,933	6,623	64
East Midlands	-26,350	5,813	263
West Midlands	-6,654	-16,667	18,470
East	-19,772	1,743	18,617
London	-17,728	47,227	85,861
South East	-32,548	-4,562	-4,283
South West	-25,958	-5,502	46,099
Wales	-6,467	7,255	9,417
Scotland	-9,683	-1,703	22,175

Source: *Business Register and Employment Survey* (BRES), 2015. Author's own calculations.

'Roll out' neoliberalisation: Private Sector Job Creation

The Coalition's deficit reduction programme was met with considerable opposition from public sector workers. With 62 per cent of trade union members employed within the public sector in 2010, the TUC played a leading role in challenging the Coalition's programme of public sector cuts (Grimshaw, 2013: 582). For example, in 2011 1.3 million working days were lost to strike activity in the public sector - a figure which far exceeded previous trends throughout the 2000s (Müller et al., 2015: 37). In addition, as growth flat-lined and living standards continued to stagnate, support from the general public for the government's deficit reduction programme also became increasingly fragile (Keegan, 2014: 47). By 2012, Osborne's credibility was at its lowest ebb and the Conservative's advantage on the economy looked increasingly precarious. For example, in May 2012 polling revealed that 40 per cent of the public thought that the Conservatives should change their economic strategy even if this meant that the deficit would remain for longer, as opposed to 32 per cent who wished to see a continuation of the government's economic policy (YouGov, 2012). The Coalition's economic credibility and political legitimacy were therefore increasingly vulnerable on a number of fronts throughout the first half of the parliament.

The issue of public sector job cuts was one area of real potential weakness for the Coalition. As such, it was essential for the government to contain opposition to its programme of public sector employment retrenchment so as to avoid a wider de-legitimisation of its economic strategy. However, particularly within its first two years in office, the Coalition's ability to command support for its programme of public sector employment retrenchment came under sustained attack from a number of different angles. A range of interest groups, civic organisations and political commentators argued that large reductions in the size of the government workforce would undermine attempts to reduce the budget deficit. First, it was argued that swingeing cuts to the public sector would create a large pool of unemployed individuals who would not pay income tax and would instead be reliant on out-of-work benefits (PCS, 2010). Second, it was argued that public sector employment cuts would have a knock-on effect on private sector employment, as large reductions in government jobs would further undermine aggregate demand and business confidence. On this basis, in 2010 the TUC projected that as a result of the Coalition's public sector job cuts, it would take fourteen years for the private sector to generate enough jobs to bring Britain back to its pre-recession level of employment (TUC, 2010a). Echoing this analysis, the Chartered Institute for Personnel and Development (CIPD) projected at the time of the June 2010 budget that public sector job cuts would push unemployment to 3 million by 2012 and that unemployment would remain at that level until the end of the parliament (BBC News, 2010b). One year later, in October 2011, net job losses in the public sector continued to outstrip net job creation in the private sector, such that the CIPD called on the government to "call a halt to public sector job cuts while the economy and labour market remain in the current fragile condition" (CIPD, 2011: 4). By 2012, analysts from across the political spectrum warned of the negative effect which public sector job cuts were having on the broader state of the British economy. For example, Blerina Uruci, an economist at Barclays, warned that:

> The labour market has been in poor health for most of the past year and we expect this to continue in 2012. This weakness has been characterised by a fall in public sector employment, which was more pronounced than expected as local government shed jobs particularly aggressively. Its effects have been amplified by the slow pace at which private sector jobs were created. We currently forecast a weak recovery, which means that private sector job creation is likely to remain slow throughout this year.

(Uruci, 2012)

Between 2010 and 2012, the Coalition therefore became increasingly vulnerable to the charge that its programme of public sector employment retrenchment was undermining rather than facilitating an economic recovery. In combination, weak private sector growth, large cuts to departmental budgets and public sector employment retrenchment threatened to de-rail the Conservative's newly-acquired political advantage on the economy. In response, the Conservatives needed an alternative vision of how their austerity programme would rejuvenate Britain's economic base. This discourse was available in a reformulated version of the 'expansionary austerity' thesis which was outlined in Chapter Five (Dellepiane-Avellaneda, 2015). According to this narrative, public sector employment 'crowds-out' private sector investment and economic activity. Hence, public sector employment retrenchment - in particular in those regions which were characterised by high levels of state-supported employment - would be accompanied by an increase in private sector-led investment and jobs growth (Grimshaw, 2013). As such, the government's programme of 'roll back' neoliberalisation through public sector job cuts was discursively coupled with a complementary narrative which offered a 'positive' vision of how austerity would rejuvenate Britain's economic base: that cutting the size of the public sector would produce a dynamic of *autonomous private sector job creation* throughout the country in general and in the ex-industrial regions in particular. This of course represented a direct rebuttal of the claims made by the CIPD, the TUC and those Keynesian commentators who had argued that implementing large spending cuts during an economic downturn would substantially increase unemployment. For example, in 2009 David Blanchflower a - former member of the Bank's Monetary Policy Committee and vocal critic of Osborne's economic strategy - predicted that:

> If spending cuts are made too early…unemployment could easily reach four million. If large numbers of public sector workers, perhaps as many as a million, are made redundant and there are substantial

> cuts in public spending in 2010, as proposed by some in the Conservative Party, five million unemployed or more is not inconceivable.

(Blanchflower, 2009)

Unemployment on this scale would have far outstripped the levels of joblessness which emerged in the early 1980s under Thatcher (Overbeek, 1989b). However, by the end of 2012, the expected surge in unemployment did not materialise. Instead, unemployment increased from 5 per cent in 2009 to 8.5 per cent in 2012 and then peaked at this level. This was far lower than the level of unemployment which had been recorded in the recessions of the early 1980s and 1990s. It was also lower than the levels of unemployment experienced in other advanced economies in the post-2008 context.[122] As Blanchflower subsequently admitted, “the rise in the unemployment rate in the UK in the Great Recession was less than everyone expected, including me” (Lilico & Blanchflower, 2015). The reason that unemployment did not balloon to the extent that many commentators had anticipated was that the private sector did effectively generate enough jobs to ‘fill-in’ for cuts to the public sector workforce (Toynbee & Walker, 2015: 143). This dynamic of private sector job creation became a defining motif of the Conservative’s political discourse and was subsequently constructed as “jobs miracle” by the government (Cameron, 2015). For example, Mark Hoban, Minister for Employment at the DWP, stated in 2013:

> The cynics claimed the private sector wouldn’t step up to create jobs as we bring public spending under control. These figures show that the cynics were wrong. There are now 1.3 million more people working in the private sector compared to when the coalition took

[122] For example, the United States and the EU experienced average unemployment rates of between 10 and 11 per cent in this period.

> office – that's 3 new private sector jobs for every 1 lost in the public sector.
>
> (DWP, 2013)

By 2015, the Conservative leadership held-up Britain's high rate of private sector job creation as one of its core achievements. It regularly pointed-out that two million new private sector jobs had been created under the Coalition, making Britain the "jobs factory of Europe" (Cameron, 2015). However, the Coalition's claims can be problematised on a number of grounds. First, as we saw previously, rather than unemployment rising rapidly as had occurred in previous recessions, real wages instead took the strain: workers' incomes underwent their deepest and most sustained decline since the mid-19th Century, with real wages falling by 7.9 per cent between 2008 and 2013 (Green & Lavery, 2015; Groom, 2013). In contrast, three years after the 1980s and 1990s recessions, real wages had increased by 5 and 10 per cent respectively (IFS, 2013: 5). As such, the Conservative's 'jobs miracle' was in fact based on an unprecedented period of sustained real wage decline and an erosion of living standards for workers (Plunkett, 2011). Second, there was a substantial increase in 'under-employment' - defined as "those currently in work who would prefer to work longer hours" - throughout the Coalition's period in office (Bell & Blanchflower, 2013: 1). Data from the Work Foundation show that the 'under-employment' figure peaked in 2011 Q4 at 9.26 million and remained above its pre-recession peak throughout the post-crisis conjuncture (The Work Foundation, 2015). The ONS confirms this analysis, suggesting that by Q4 2014, three million workers were under-employed - one million more than the figure in 2001 and markedly higher than pre-crisis levels (ONS, 2014b: 2). Third, and relatedly, 'non-standard' and 'precarious' jobs also rose under the Coalition government. For example, whereas before the downturn around 25 per cent of temporary workers were in this position because they could not find a permanent job, in the post-crisis period this proportion had risen to 40 per cent (Berry, 2014: 6).

In addition, self-employment increased rapidly under the Coalition (Plunkett et al., 2014: 28). One study revealed that 44 per cent of net job creation was accounted for by this category of work between 2010 and 2014 (TUC, 2014a). Since self-employment is typically associated with insecure, low-paid work - the median salary for a self-employed individual is well below the national average, at £12,000 per annum - a key component of the Conservative's 'private sector-led' recovery involved a deepening of insecure, low paid work (Plunkett et al., 2014: 28). As such, whilst the rapid growth of private sector jobs under the Coalition ensured that unemployment did not reach the peaks it had in previous recessions, the government's economic 'recovery' in fact re-embedded and intensified long-standing structural weaknesses - in particular the low pay, low skill, low productivity character of Britain's labour market - within Britain's emergent, post-crisis growth model (Coates, 2005: 99).

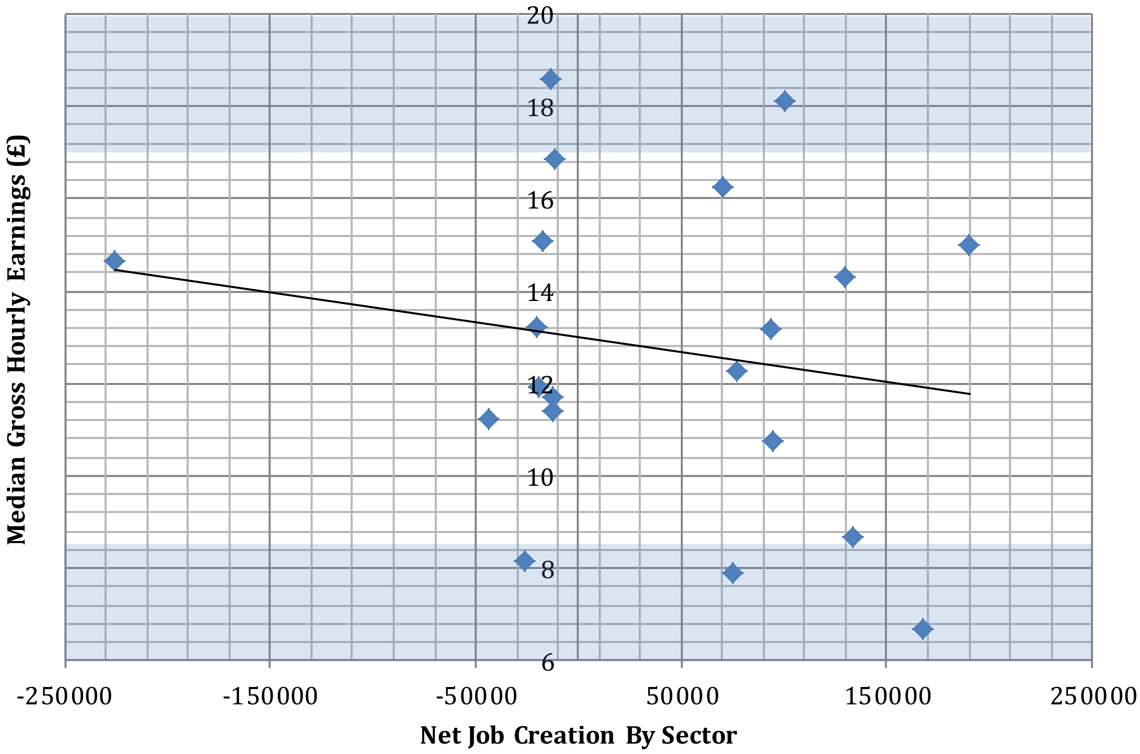
Job Creation in 'Low Pay' Sectors in the 'ex-industrial' regions

The above trends all suggest that Britain underwent a period of substantial labour market restructuring throughout the post-crisis conjuncture. Large scale public sector employment retrenchment did not provoke an outbreak of mass unemployment as some commentators had feared because private sector job creation had 'filled-in' for the decline in government jobs (Cribb, et al., 2014). However, this process of private sector jobs growth took place in a context of sustained and unprecedented real wage repression. It was also paralleled by a marked rise in precarious, insecure jobs. However, these statistics only give a broad impression of labour market trends at the national scale. The uneven development of the Coalition's private sector-led recovery is therefore not accounted for. This section will expand on the argument that the Coalition's programme of labour market restructuring involved a regressive re-composition of employment at the sub-national scale. It does this by focussing on one particular axis of labour market restructuring in the post-crisis conjuncture: net job creation across 'high' and 'low' pay sectors between 2010 and 2015. Figure 7.7 offers an illustration of net job creation - the number of jobs created minus the number of jobs lost over a given timeframe - across a range of different UK economic sectors between 2010 and 2014.[123] The table identifies the ten sectors which saw the highest levels of job creation in this period as well as the ten sectors which experienced the highest levels of job losses. Each sector is then ranked in the table according to the median salary which it pays. The sectors which correspond to each of the data points are listed in Appendix One.[124]

[123] The analysis uses sectoral data from the *Business Register and Employment Survey* (BRES) 2015 as well as pay data from the Annual Survey of Hours and Earnings (ASHE). The chart is made up of twenty data points in total. Ten of these data points represent the ten sectors which lost the most jobs throughout the post-crisis conjuncture. The other ten data points represent the ten sectors which created the most jobs over the same timeframe. The further the data point is to the left, the more jobs the sector lost over the period; the further to the right the data point is, the more jobs it created. The Y axis represents median gross hourly earnings for each sector. The higher up the Y axis a sector is, the higher the average wage which that is paid in that sector. The lower down the Y axis a sector is, the lower the average wage which is paid in that sector. The light blue shaded areas represent 'high pay' and 'low pay' sections of the chart respectively, where 'high pay' is defined as above the 75th percentile of £17.72 per hour and 'low pay' is defined as below the 25th percentile of £8.15 per hour.

[124] The Figures listed here are not supposed to demonstrate a causal relation between the two variables. Rather, the graphs are illustrative in the sense that they portray different sectoral dynamics across a range of different regions. This reveals important qualitative differences between the selected regions in the 'North' relative to both the UK taken as a whole and against the South East region.

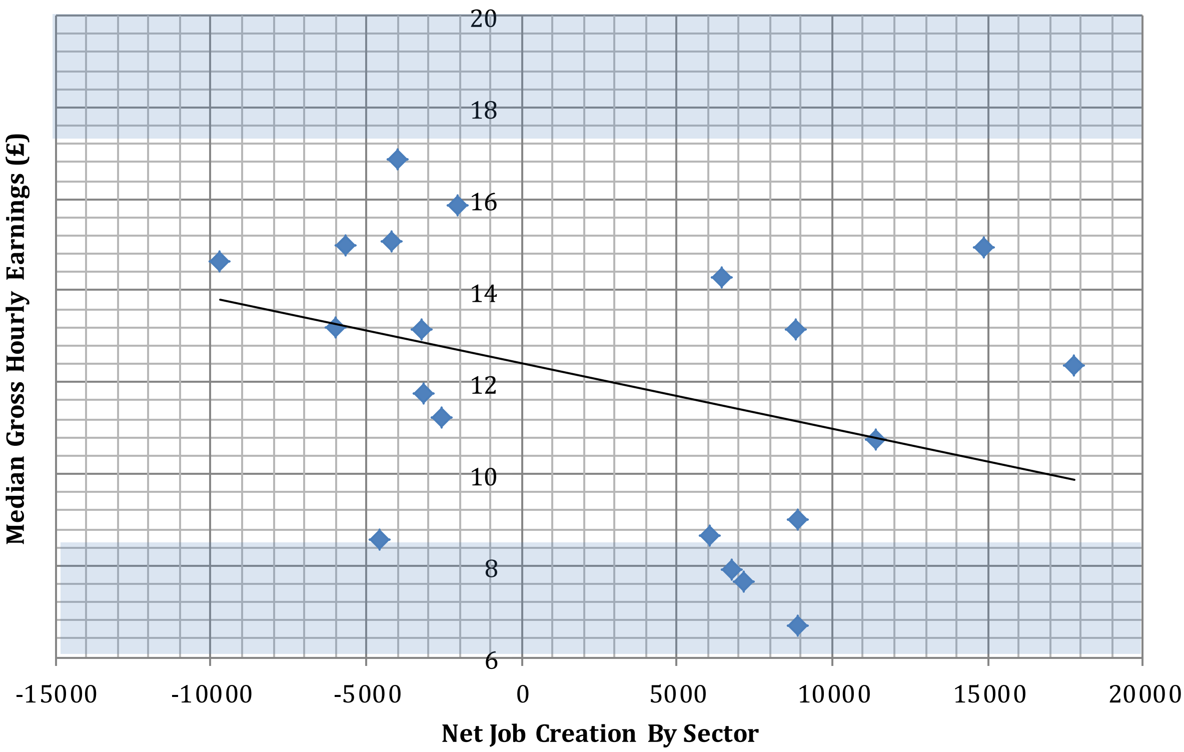
Figure 7.7: United Kingdom: Net Job Creation in 'Low Pay' and 'High Pay' Sectors (2010 – 2014)



Source: *Business Register and Employment Survey* (BRES), 2015. Author's own calculations.

Looking at the national level data, we can make a number of observations. First, as might be expected given the argument in the above section, net job creation across the measured sectors was positive between 2010 and 2014, with more 'positive' net job creation (those sectors on the right hand side of the chart) as against opposed to 'negative' net job creation (those sectors on the left hand side of the chart). The major exception is public administration and defence – on the far left of the chart - which saw a net decline of 224,993 jobs over the period of study. Second, the downwards trend line suggests that there was a general trend towards job creation in 'low pay' as opposed to 'high pay' sectors throughout this period. This trend is reflected in the fact that three of the sectors which created the most jobs in the post-crisis period were clustered in the 'low pay' bracket within the lower blue shaded area. As outlined in the appendix, these data points represent the food and beverage service activities and residential care activities sectors. Together, these sectors accounted for just short of 250,000 net new jobs between 2010 and 2015. In contrast, only one of the top ten job creating sectors was in the 'high pay' bracket: computer programming, consultancy and related activities, which created 100,972 jobs in the same time period. As such, net job creation across Britain was generally skewed towards lower pay sectors throughout the post-crisis conjuncture. This general trend at the national scale can be used as a benchmark against which to measure regional labour market performance in terms of net job creation across 'high pay' and 'low pay' sectors. Each of the following charts follows the same structure as Figure 7.7 for three regions across the UK: two 'Northern' regions (Scotland and the North East of England) and one Southern region (South East of England).

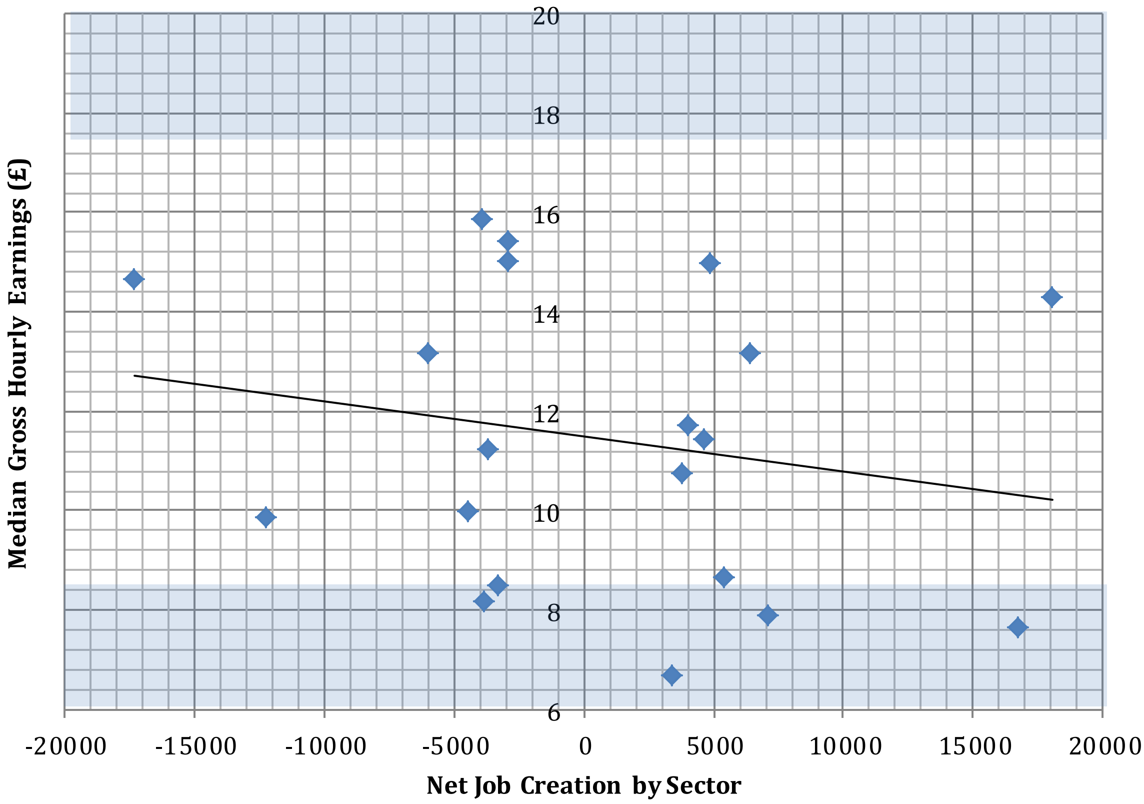
Figure 7.8: Scotland: Net Job Creation in 'Low Pay' and 'High Pay' Sectors (2010 – 2014)



Source: *Business Register and Employment Survey* (BRES), 2015. Author's own calculations.

The disaggregated labour market data for Scotland reveals a notably different pattern from that which was in evidence for Britain in the previous chart. First, net job losses are more pronounced in the Scottish chart than in the British equivalent, with proportionately more jobs located on the left-hand side of the chart. Importantly, many of the sectors which lost jobs throughout this period also tended be concentrated in relatively 'high pay' sectors. The median wage in Britain in 2014 was £11.61 per hour. As the chart demonstrates, of the ten sectors which lost most jobs in Scotland over the post-crisis conjuncture, *nine* of them paid on average above the national median rate. For example, sectors which lost jobs in this period included civil engineering (which paid £13.19 median gross hourly earnings), legal and accounting services (£15), publishing activities (£15.05), telecommunications (£15.85) and insurance, reinsurance and pension funding (£16.86). Second, a high proportion of net job creation was in 'low pay' sectors. The cluster of five sectors in and around the blue shaded section on the right hand side of the chart includes retail, the food and beverage sector and residential care activities, which all pay below £8.15 gross hourly earnings on average. For this reason, the downward trend line represents a clear re-composition of the Scottish labour market between 2010 and 2014, with job losses generally concentrated in higher paying sectors and job creation disproportionately concentrated in lower paying sectors. Third, although some job creation took place in sectors with average pay rates around the median rate (such as in specialised construction and warehousing, located in the upper right-hand section of the chart), the number of jobs generated in these sectors were not sufficient to compensate for job losses in other 'high pay' sectors or to balance out the high number of jobs created in 'low pay' sectors throughout this period. Fourth, it is worthwhile acknowledging the enduring role that state-supported employment played in sustaining relatively well-paid work in Scotland throughout this period. Specifically, of those sectors which paid above the national median in Scotland and which showed positive jobs growth, one fifth were in human health activities, a sector which is almost exclusively within the NHS. As such, we can conclude that in terms of job creation, Scotland experienced a general shift towards employment in lower paid sectors, lost jobs in higher paying sectors and remained reliant on state-supported work as a driver of well-remunerated employment. The 'rolling out' of private sector employment in Scotland throughout the post-crisis conjuncture therefore re-embedded a shift towards employment in 'low pay' sectors.

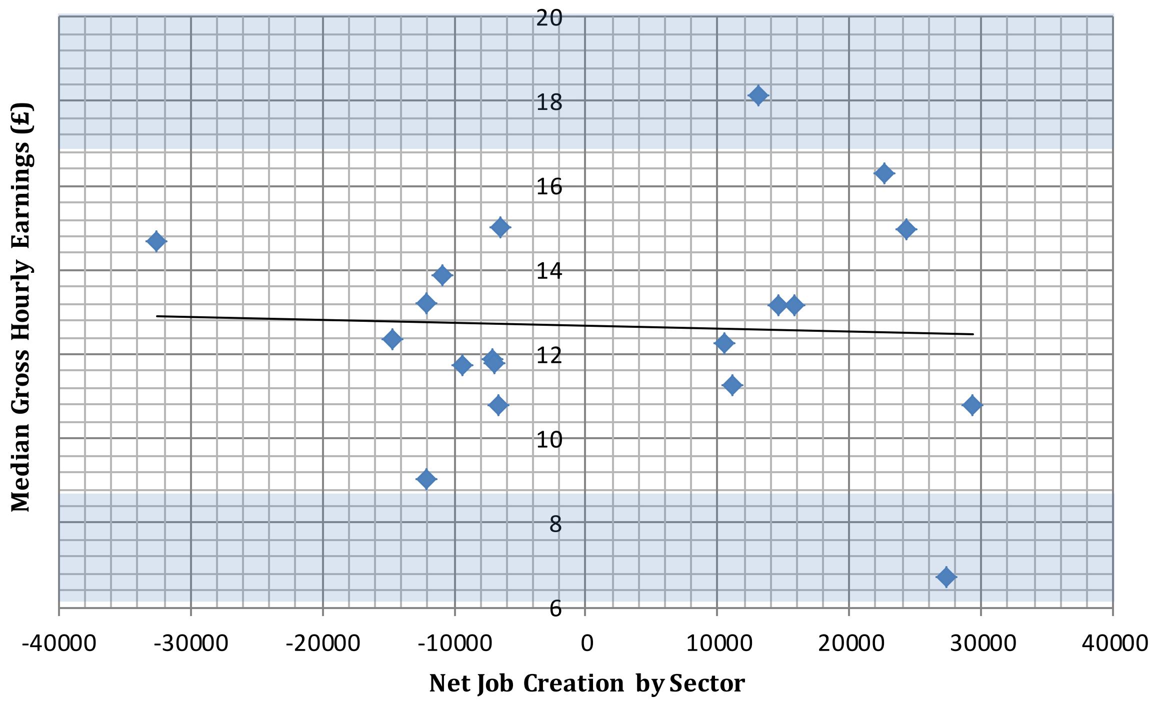
Figure 7.9: North East: Net Job Creation in 'Low Pay' and 'High Pay' Sectors (2010 – 2014)



Source: *Business Register and Employment Survey* (BRES), 2015. Author's own calculations.

The second Northern region we can analyse - outlined in Figure 7.9 above - is the North East of England. Again, in the chart we can identify a downwards trend line, suggesting that there was a broad re-composition of the North East's labour market towards 'low pay' net job creation between 2010 and 2014. As was the case with Scotland, job creation in 'low pay' sectors partly drove this dynamic, with residential care, retail, food and beverage and employment activities accounting for 43 per cent of net new jobs created in this period. This dynamic, combined with major job losses in higher paying sectors such as public administration and wholesale trade, ensured that net job creation was disproportionately skewed towards lower paying sectors throughout the post-crisis conjuncture. One factor which stands out even more prominently in the North East than in Scotland is the enduring reliance of the former's labour market on the state as a provider of relatively 'high pay' jobs. The sector which created the most jobs in this period was human health activities - predominantly accounted for by jobs within the NHS - which produced 18,050 net new jobs between 2010 and 2015. This is the data point which is furthest to the right in the chart. Crucially, in the absence of this state-supported sector, the proportion of 'low pay' jobs created throughout the post-crisis period would have been considerably higher: indeed, of the 30,000 net new jobs which paid above the national median in this period, 60 per cent of these were accounted for by 'human health services'. On these grounds, we can conclude that - in common with Scotland - the North East of England experienced a transition towards job creation in 'low pay' sectors in this period. Although a number of sectors created jobs which paid above-median rates - for example warehousing and head office work - the majority of above median pay jobs were accounted for by an expansion of workers in the (state-funded) human health services sector.

Figure 7.10: South East: Net Job Creation in 'Low Pay' and 'High Pay' Sectors (2010 – 2015)



Source: *Business Register and Employment Survey* (BRES), 2015. Author's own calculations.

The final job creation chart - represented in Figure 7.10 - illustrates labour market changes across the South East of England between 2010 and 2014. Immediately, a number of differences become apparent when we compare these figures with the charts for Britain, Scotland and the North East of England. First, the trend line is almost flat. This suggests the South East did not display the same general trend towards 'low pay' net job creation throughout the post-crisis conjuncture. In contrast to the North East, where four of its major growth sectors were in 'low pay' industries or located just above the 'low pay' threshold, the South East had only one sector - food and beverage services - within the 'low pay' bracket. Furthermore, this sector accounted for only 16.2 per cent of net job creation within the top ten 'growth' sectors in this period. As the graph demonstrates, the vast majority of net job creation took place in higher paying sectors. For example, architectural and engineering activities (which paid median gross hourly earnings of £16.25), computer programming (£18.10), real estate (£12.26) and construction (£13.16) all saw substantial increases in this timeframe. The result was that 59.9 per cent of net job creation in the South East throughout the post-crisis conjuncture took place in sectors which paid above the national median. This stands in stark contrast to the figures cited above for both Scotland and the North East. In addition, none of the top ten job creating sectors in the South East region were within the public sector. Again, this contrasts with the data supplied for the two selected 'ex-industrial' regions, suggesting that the labour market in the South East remains less dependent on direct forms of state and 'para-state' support and has the capacity to deliver private sector employment growth at a faster rate than the ex-industrial regions.

The four charts above are of course limited in a number of ways and should not be treated as a comprehensive account of labour market restructuring in the post-crisis conjuncture. First, they only provide a 'snapshot' of three regions - two 'Northern' regions and one 'Southern' region - as against a national average. As such, they only provide an indicative illustration of labour market re-composition in this period. Second, the median pay rate for each sector is of course only an average. Different sectors will produce a range of different jobs internally with different pay grades. Hence, the above data is only partial as it does not elaborate on the types of jobs created within each sector. That said, the data provides a good illustration of sectoral change in this period as well as a good representation of the impact which this had on pay rates in general. For example, it is fair to assume that high rates of job creation in the food and beverage sector will tend to produce lower paid jobs than high rates of job creation in the legal and accounting activities sector. With these qualifications, then, we can advance a series of conclusions based on the above data. First, there was a general trend within the 'Northern' regions which were analysed towards job creation in low pay sectors alongside a decline of jobs in high pay sectors. This means that - taken alongside the evidence provided in the previous section - we can identify a general re-composition of labour markets towards lower pay work in the post-crisis conjuncture.

Second, the data re-emphasises the enduring importance of the state in supporting employment across the Northern regions. In particular, the continuing growth of the 'human health services' sector sustained above median pay job creation and prevented labour markets in the North East and in Scotland from experiencing even higher rates of 'low pay' net job creation than they might otherwise have experienced. Third - and in contrast to the above trends in the 'Northern' regions - the South East displayed a markedly distinct labour market dynamic throughout this period. It generated far less jobs in low pay sectors, created far more jobs in 'high pay' sectors and was not reliant upon public sector industries for job creation. Together, these trends suggest that the uneven development of British capitalism - viewed through the lens of net job creation - was not corrected throughout the post-crisis conjuncture. Rather, patterns of spatial divergence between labour markets concentrated in the ex-industrial periphery and the South East intensified as long-standing geographical imbalances and structural weaknesses within British capitalism became consolidated in this period.

7.5 Conclusion

In line with Chapters Four, Five and Six, this chapter has traced the extent to which the Coalition's political economy represented a *continuation of* or a *rupture with* the hybrid regime of development which had come to be established under New Labour. However, this chapter has moved beyond the 'macro-political' focus of the previous chapters. Instead, it has aimed to analyse processes of institutional change at the sub-national scale throughout the post-crisis conjuncture. It has done this by focussing on one specific institutional nexus: the expansion of public sector or 'state-led' employment under New Labour and its subsequent retrenchment under the Coalition government. In Section One, it was argued that New Labour's 'One Nation' hegemonic project generated a distinctive *regime of spatial redistribution* which recycled state revenues from the finance-led core to labour markets concentrated in the ex-industrial periphery. This dynamic stabilised - to a limited extent and only provisionally - the uneven development of Britain's finance-led growth model throughout the pre-crisis conjuncture. Section Two then analysed the way in which this dynamic became increasingly politicised by the Conservative opposition throughout the post-crisis conjuncture. Specifically, it was argued that the Conservatives effectively 'depoliticised' the issue of state-led employment in the 'policy emulation' period between 2005 and 2008 as the leadership sought to incorporate key elements of New Labour's programme into its own policy platform. However, in the immediate aftermath of the financial crisis, the Conservatives increasingly came to identify public sector employment as a central cause of Britain's 'imbalanced' economy and as an issue which needed to be resolved through state intervention.

Section Three then turned to analyse how this latent discourse came to be articulated into a concrete programme of action oriented towards securing a 'private sector-led recovery' under the Coalition. A series of distinct but inter-related arguments were made relating to the Coalition's programme of public sector retrenchment and labour market restructuring across the UK's regions. First, the Coalition's programme unfolded unevenly across the UK, disproportionately impacting those 'ex-industrial' regions which had previously been net beneficiaries of New Labour's regime of spatial redistribution. Second, this process of 'roll back' neoliberalisation operated in tandem with a distinctive dynamic of 'roll out' neoliberalisation. Specifically - and in contrast to the recessions of the early 1980s and 1990s - unemployment did not rise rapidly as the government implemented its deflationary programme. Instead, private sector employment growth effectively 'filled-in' for public sector job losses. However, it was argued that private sector job creation took place in a context of sustained real wage stagnation and regressive labour market restructuring, with high rates of under-employment and self-employment emerging in this period. Third, as the three case studies of regional labour markets demonstrated, job creation was disproportionately skewed towards 'low pay' as opposed to 'high pay' sectors throughout the post-crisis conjuncture. This dynamic was in place across the UK in general and in the ex-industrial regions in particular. Taken together, these trends suggest that the Coalition's programme of labour market restructuring *re-embedded* rather than transcended long-standing structural weaknesses within Britain's model of capitalism.

It is worthwhile briefly placing this analysis within the broader argument of the thesis. As was outlined in Chapter Three, this thesis draws on a number of theoretical currents. In particular, it draws-upon a reformulated regulationist approach as well as on neo-Gramscian state theory. What both of these approaches have in common is that they insist that advanced capitalist societies do not automatically 'self-stabilise' or secure the conditions for their own reproduction through 'economic' mechanisms alone. Rather, sustained economic expansion is possible only insofar as accumulation is embedded within a complementary institutional nexus which stabilises economic expansion over time. However, 'flanking' mechanisms and institutional complexes which support growth models do not emerge simply because they are 'functional' to the needs of capitalist expansion. Rather, these supporting mechanisms emerge as a result of struggle between different social groups. As leading actors within the state seek to secure their governing legitimacy they tend to engage in practices which can (but of course may not) stabilise capitalist development over time. It has been argued throughout this thesis that New Labour's 'hybrid' political economy – its fusion of a finance-led accumulation strategy with a 'One Nation' hegemonic project – should be thought of in this way. In contrast to the growth model perspective, which tends to focus exclusively on the ways in which the state can actively facilitate financialisation processes, the argument throughout this thesis has been that New Labour's attempt to secure a broad base of support through implementing (limited) redistributive measures played a key role in stabilising British capitalism throughout the pre-crisis conjuncture.

The first key contribution of this chapter has been to argue that this stabilising function had important *spatial* implications. In particular, public spending increases from 2000 onwards linked together Britain's finance-led core with labour markets in the ex-industrial periphery. In this sense, uneven development was at least partly contained through the expanded role of the state in the ex-industrial periphery. The second key contribution of this chapter has been to outline how this 'spatio-institutional fix' came to be politicised and then restructured throughout the post-crisis conjuncture (Jessop, 2013b: 8). The Coalition's austerity programme explicitly broke with the spatially redistributive mechanisms which were in place under New Labour. In particular, its programme of spending cuts and public sector employment retrenchment disproportionately impacted on those 'ex-industrial' labour markets which had become increasingly dependent upon state support throughout the pre-crisis conjuncture. As such, those mechanisms which had (partially) contained uneven development under New Labour were increasingly subjected to retrenchment under the Coalition. Third, the empirical material from this chapter provides one lens through which to account for how this process produced new forms of instability within British capitalism at the sub-national scale. Specifically, it has been argued that public sector employment declined more rapidly in the ex-industrial periphery than within London and the South East whilst net job creation was disproportionately skewed towards job creation in 'low pay' sectors in the ex-industrial regions. As a result, the Coalition's regime of sub-national labour market restructuring has re-embedded long-standing structural weaknesses and patterns of spatial divergence within Britain's emergent model of post-crisis capitalism. Whilst the Coalition re-established the conditions for a renewed wave of 'privatised Keynesianism' growth by the end of the parliament, at the same time it had effectively eroded some of the key 'flanking mechanisms' which had served to contain the uneven development of British capitalism throughout the pre-crisis conjuncture.

8. Conclusion

The core objective of this thesis has been to examine the extent to which Britain's post-crisis model of capitalism represents a *continuation of* or a *rupture* with the model of capitalism which had been in place throughout the pre-crisis conjuncture. In order to answer this question, the thesis has engaged in a comparison of the political-economic strategies pursued by the New Labour and the Coalition governments respectively. In light of this analysis, the evidence presented in the above chapters suggests that we can identify important instances of both continuity and change within post-crisis British capitalism. In particular, the core argument of this thesis has been that *whilst the Coalition effectively re-established the conditions for a renewed wave of finance-led growth in Britain, it effectively broke with the legitimation strategy which New Labour had deployed in the pre-crisis conjuncture.* This, it has been argued, has important implications for how we might conceptualise the emergent structure of post-crisis British capitalism and its likely developmental trajectory in the future. In this concluding chapter, the core arguments of the thesis and its contribution to the existing literature will be drawn together. The chapter also reflects on the implications of the thesis for future research.

Core arguments and contribution to the literature

The argument of this thesis has proceeded in four distinct steps. First, a body of political economy literature which emerged in the post-crisis period – what I termed the 'growth model perspective' – was critically reviewed and developed (Crouch, 2011; Finlayson, 2008b; Hay, 2013c; see also Streeck, 2014a; Watson, 2010). It was argued that whilst this growth model perspective provides us with a good account of some of the structural imbalances at the heart of Britain's pre-crisis model of capitalism, this literature is also limited in a number of important respects. In particular, it cannot provide a compelling explanation of how Britain's pre-crisis growth model was *stabilised* throughout the pre-crisis conjuncture. Relatedly, it advances a *limited conception of the state* which tends to privilege analytically forms of state intervention which were 'functional' to – or in other words actively facilitated – the financialisation of the British economy throughout the pre-crisis conjuncture.

The first contribution of the thesis has been to address these conceptual weaknesses and to advance a reformulated theoretical framework which improves upon the growth model perspective in its current form. In order to do this, two distinct critical political economy approaches – the 'Regulation Approach' and neo-Marxist state theory – were drawn-upon and further developed. Regulationist perspectives draw attention to the ways in which growth models are embedded within 'extra-economic' institutional complexes which can serve to stabilise economic development over time. Neo-Marxist theories of the state – and in particular Gramscian theories of hegemony – provide us with a framework through which to conceptualise the ways in which the state is typically oriented towards securing a range of different social and political objectives simultaneously. By synthesising these regulationist and Gramscian approaches, it was argued that some of the main limitations of the 'growth model perspective' can be transcended. In particular, whilst the growth model perspective provides us with a good account of the *accumulation strategies* advanced by policymakers, the thesis has argued that this should be complemented by an account of the *legitimation strategies* – or 'hegemonic projects' – pursued by state managers as they attempt to secure support for their favoured programme of development. By introducing this analytical distinction between *accumulation strategies* and *legitimation strategies* it was argued that a more compelling framework for comparing the political economy of New Labour and the Coalition can be advanced.

The second core contribution of the thesis has been to apply this conceptual framework so as to advance a distinctive reinterpretation of New Labour's political economy. Specifically, it was argued that New Labour established a *hybrid* regime of social and economic development in the pre-crisis conjuncture. In accordance with the growth model perspective, it was argued that New Labour did pursue a finance-led accumulation strategy which both consolidated the position of the financial sector within Britain and which further extended the price mechanism into a diverse range of social spheres. However, it was argued that this accumulation strategy was paralleled by a distinctive – albeit limited and provisional - 'One Nation' legitimation strategy or hegemonic project. From 2000 onwards, New Labour engaged in the largest increase in spending on public services of any post-war British government. It also implemented a range of redistributive social policies which channelled state revenues to social groups who might otherwise have been excluded from the dominant finance-led growth model. However, these (limited) forms of redistribution were not driven by a 'logic' which was internal to the finance-led growth model. Rather, they were driven by a range of political considerations, including the Labour Party's attempt to consolidate and entrench a continued base of support for its social and economic programme.

This has two implications for the existing literature. First, in contrast to many accounts of New Labour[125] - which tend to focus on the question of whether the Party's programme was in essence 'neoliberal' or 'social democratic' - one key contribution of this thesis has been to argue that New Labour's political economy assumed a distinctive *hybrid form*. Britain's pre-crisis model of capitalism therefore combined elements of marketization *and* state-led redistribution which effectively – but only temporarily – secured the conditions for stable economic expansion before the 2008 crash. Second, and relatedly, the state was not simply 'rolled back' under New Labour. It was simultaneously 'rolled out' and expanded in a number of different ways (Peck,

[125] In particular within political science.

2010). For example, public sector and state-led employment increased markedly throughout the pre-crisis conjuncture, whilst tax subsidies for in-work households increased to a significant extent. Crucially, this hybrid regime of development played a key role in stabilising British capitalism throughout the pre-crisis conjuncture. For example, New Labour's expansion of public expenditure played an important role in reducing relative poverty, constraining the growth of income inequality and (partially) mitigating the uneven development of British capitalism throughout the pre-crisis conjuncture (Hay, 2013b; Joyce & Sibieta, 2013). As such, in contrast to those approaches which claim that the role of the state has diminished over the past few decades (Ohmae, 1999), we can conclude that the state continues to play a key role in shaping and stabilising advanced capitalist development.

However, the 2008 GFC fatally undermined New Labour's hybrid regime of social and economic development. As lending dried-up and as asset prices began to plummet, Britain's finance-led growth model went into a tail-spin. Growth fell, tax revenues slumped and the benefits bill increased as workers were pushed onto the unemployment register. Subsequently, the public finances deteriorated, with the public debt and the budget deficit increasing markedly as a proportion of GDP between 2008 and 2010. It was in this context that the Conservative Party – under the leadership of Cameron and Osborne – took the initiative and consolidated their position over Brown's embattled Labour government. The core rationale of the Conservative's new social and economic programme was simple: to 'sort out the mess that Labour left behind', a commitment which was confirmed in the June 2010 Budget as Osborne committed to eliminating Britain's large budget deficit – primarily through spending cuts – within one parliament. A remarkable shift had therefore taken place. Whereas in 2007, the Conservatives in opposition had committed to match Labour's public expenditure plans, by 2010 the new government had effectively committed to reducing non-protected departmental budgets by around a fifth. A new regime of fiscal consolidation and welfare retrenchment had begun to take shape.

This thesis has traced the emergence and evolution of the Coalition's political-economic strategy in office. However, it has sought to do this from a particular perspective. Specifically, it has contextualised the evolution of the Coalition's political economy in relation to New Labour's hybrid regime of social and economic development. This provides us with a framework against which to judge the extent to which Britain's post-crisis model of capitalism represented a *continuation of* or a *rupture with* the model of capitalism which had been in place in the pre-crisis conjuncture.

In this regard, the thesis focussed on the evolution of the Coalition's economic strategy in government in order to determine the extent to which it 'broke' with the accumulation strategy of New Labour. The third core contribution of the thesis has been to argue that by the end of the 2010 – 2015 parliament, the Coalition had effectively re-established the conditions for a renewed wave of finance-led growth in Britain, albeit after a transitionary period and in a slightly modified form. Despite its discursive commitment to 'rebalancing' the British economy sectorally and geographically, the Coalition government did not secure a restructuring of Britain's finance-led growth model (see also Berry & Hay, 2015b). For example, when GDP growth returned in the spring of 2013, it was driven by consumption and by an expansion in the services sector. Britain's large trade deficit endured whilst its current account deficit reached a postwar high of six per cent in 2015. Industrial production fell, manufacturing exports remained weak and investment continued to be biased towards commercial and residential property. Although household debt as a proportion of GDP remained below its pre-crisis peak in 2015, it was projected to surpass that level in the following parliament. As such, the Coalition did not move

Britain away from the finance-led growth model which had predominated throughout the pre-crisis conjuncture.

However, it was also argued that the 2013 economic recovery did not simply reflect a return to 'privatised Keynesianism' Mark II, as claimed by some commentators (Hay, 2013a). Some of the key mechanisms which had been in place throughout the first wave of privatised Keynesian expansion – high rates of MEW and high levels of net lending to households - were simply not in place during the initial return to growth. The boost in consumption in this period was driven by a decline in the savings ratio rather than exclusively by a rapid increase in private debt. However, this alternative source of demand had been largely exhausted by the end of the parliament insofar as the saving ratio had fallen back to pre-crisis levels. Household debt to GDP ratios were also on an upward trajectory whilst real wage growth continued to be markedly constrained. In addition, government policies such as Help to Buy aimed explicitly to re-establish features of Britain's pre-crisis growth model, for example in the form of high loan-to-value ratios and increased levels of mortgage debt. As such, the period of putative economic recovery between 2013 and 2015 is perhaps best viewed as an *interregnum* period within which the basic conditions for a renewed wave of finance-led growth became firmly re-established within Britain.

However, whilst the Coalition effectively re-established the finance-led growth model which had been in place under New Labour, it was argued that substantial change was also in evidence throughout the post-crisis conjuncture. In particular – and this is the fourth core contribution of the thesis – it has been argued that the Coalition broke in important ways with the *legitimation strategy* which New Labour had deployed in government. In contrast to New Labour, which had sought to expand its base of support by advancing a 'One Nation' hegemonic project, the Coalition pursued a distinctive 'two nations' hegemonic project which sought to secure a limited but durable base of support amongst strategically significant sections of the population (Jessop, 1990: 216). The defining feature of a 'two nations' project, it was argued, is that it seeks to build what were termed *moralised antagonisms* between different social groups. In particular, two nations strategies seek to construct the interests of one social group as fundamentally in conflict with another. In this way, state actors can seek to build a limited base of support for their favoured developmental programme by actively mobilising one social coalition against a subordinate 'Other'. It was argued that we can identify the emergence of this strategy in two policy areas in the post-crisis conjuncture: in the Coalition's programme of welfare restructuring and in its programme of public sector retrenchment.

In each case, it was argued that the immediate post-crisis period produced a series of novel distributional trends in Britain. In particular, the incomes of 'non-working households' were protected in relative terms as real wages declined rapidly in the post-crisis context. Similarly, public sector pay growth was protected in relative terms in the first few years after the crisis whilst pay in the private sector declined rapidly. However, distributional trends of this nature do not 'automatically' produce political responses. Rather, it was argued that the Coalition advanced a particular *construction* of these distributional dynamics in order to build support for its programme of welfare retrenchment and public sector cuts. In particular, the Coalition sought to entrench a *moralised antagonism* between 'welfare claimants' and 'workers' on the one hand and 'public' and 'private' sector workers on the other. In each case, the Coalition turned what could have been a profound liability – the rapid decline in real wages and the corresponding drop in living standards over which it had presided – into a political asset. In particular, it utilised this novel distributional context to justify large cuts to the welfare bill and to public sector pay and employment levels. Under other conditions, these policies may have proven incredibly difficult to implement.

This argument has two important implications for the existing literature. First, it suggests an important link between the Coalition's *economic strategy* on the one hand and the range of *legitimation strategies* which it could deploy in office on the other. Although governments can attempt to secure the support of the social base in a variety of different ways, the kind of strategies which they can pursue will be strongly conditioned by the prevailing economic context (Gramsci, 1971: 161). Whilst the Coalition's commitment to eliminate the budget deficit in one parliament may have given it a decisive political advantage over the Labour Party in terms of its economic credibility (Gamble, 2015a), this strategic orientation came at a considerable cost. For example, its priorisation of reducing the budget deficit limited its capacity to secure real terms public expenditure increases or to offer tax cuts to middle income earners. Thus, whilst 'austerity' may be a powerful idea which can resonate with the belief systems of 'everyday' actors (Konings, 2015; Stanley, 2014), its potency as a political strategy should not be overstated. For example, as we saw previously, the Coalition attempted to portray its *Welfare Benefits Up-Rating Bill* as a policy which would 'make work pay' insofar as it would reduce the level of benefits received relative to average earnings. However, as was shown in Chapter Six, this policy in fact primarily reduced the incomes of *in-work households.* The extent to which governments can 'frame' a policy as benefiting a given social group (in this case 'workers') whilst at the same time imposing real terms losses on large sections of this social group therefore remains an open question.

In addition, it is important to *historicise* the Coalition's 'two nations' project in relation to the regime of development which preceded it. New Labour's 'One Nation' legitimation strategy, it has been argued, had important distributional implications. In particular, it resulted in an increase in public sector employment levels and in a substantial rise in tax credits paid to low income households. Whilst this helped to consolidate New Labour's governing legitimacy in office, it also produced a series of path dependencies which endured in the post-crisis period and into the next parliament. The relative protection of public sector pay and out-of-work benefits in the immediate post-crisis period – and the budgetary implications which this had – were therefore in an important sense unintended consequences of New Labour's political and economic programme. As such, the Coalition's room for manoeuvre was not only limited by the economic strategy which it pursued in office. It was also conditioned and shaped by the institutional legacies of *previous rounds of market liberal restructuring in Britain* (Peck, 2010). This underscores the key importance of tracing processes of continuity and change in advanced capitalist states historically. The politics of austerity are not just imposed 'from above' by international creditor institutions or by the 'logic' of the global capitalist system (Robinson, 2001). Rather, the manner in which fiscal consolidation processes unfold is also strongly shaped and conditioned by the novel institutional frameworks which are in place within distinct national configurations of capitalism. The Coalition's 'two nations' hegemonic project and its economic strategy should be viewed in this light – as a strategic programme which aimed to negotiate a series of distributional trends and path dependencies which were specific to British capitalism in the post-crisis conjuncture.

The fifth core contribution of this thesis has been to argue that the Coalition's political and economic programme has re-embedded a series of structural weaknesses and imbalances at the heart of British capitalism. These are likely to strongly condition the developmental trajectory of British capitalist development in the future. As was argued above, the Coalition did not successfully move Britain away from the finance-led growth model which had been in place throughout the pre-crisis conjuncture. However – as was argued by proponents of the growth perspective – this model of development renders the British economy vulnerable to a future downturn on a number of fronts. For example, by 2015 Britain was running a current account deficit of 6 per cent of GDP: the highest since records began in 1955 (Perraton, 2015). Insofar as international creditors are happy to finance this deficit, it should not present a problem to policymakers. However, the risk is that if there is a bout of global economic uncertainty – and there is ample evidence of rising instability within the global economy at present[126] (SPERI, 2016) – then investors may choose to take flight and precipitate a run on Sterling. Britain's yawning current account deficit and the Coalition's failure to correct this imbalance through increasing export earnings therefore represents a point of clear vulnerability within post-crisis British capitalism. In addition, as was argued in Chapter Two, real wage repression tends to produce a series of imbalances and structural asymmetries within advanced capitalist states. In particular, it can act as a barrier to aggregate demand formation and can encourage destabilising bouts of credit growth amongst low income households (Montgomerie & Büdenbender, 2014; Onaran, 2014). However, by 2015, Britain had experienced real wage cuts of 10 per cent. This represented the largest decline in real wages of any European country other than Greece and the largest sustained drop in earnings in Britain since the 19th Century. This suggests that a core driver of imbalance in the pre-crisis conjuncture has not only been re-established in the post-crisis conjuncture; it has intensified. Similarly, high levels of income inequality and a low 'wage share' have been identified as key drivers of financialisation and structural imbalance within advanced capitalist economies (Stockhammer, 2013). However, the economic recovery in Britain has been secured through the deployment of a range of policies which look likely to entrench distributional inequities further still. For example, as the Bank of England's own analysis has shown, its huge programme of QE has primarily benefited households in the top 5 per cent of the income distribution. Similarly, sustained low interest rates have benefited home owners, with mortgage interest rates falling by 37 per cent between 2008 and 2013 (IFS, 2014c). As a result, Britain's post-crisis return to growth

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[126] Although it lies outside of the scope of this thesis, the UK's vote to leave the European Union on the 23rd June 2016 represents a clear threat to the UK's precarious balance of payments position. During the weeks following the vote, Sterling slumped relative to both the Dollar and the euro.

embodied a ‘recovery through regressive redistribution’ - a state-led process of social and economic restructuring which combines ‘loose’ monetary policy with sustained real wage repression and public sector retrenchment (Green & Lavery, 2015). As a result, some of the key distributional asymmetries and structural imbalances associated with Britain’s finance-led model of capitalism have been re-embedded or have even intensified throughout the post-crisis conjuncture.

Finally, the sixth core contribution of the thesis has been to argue that the Coalition’s political-economic programme has had important implications for the economic geography of post-crisis British capitalism. Under New Labour, poorer regions and localities which tended to be relatively excluded from the dominant finance-led growth model generally saw substantial increases in the size of their public sector workforces. This represented a key mechanism through which subordinate social groups and regions were integrated into Britain’s financialised model of capitalism throughout the pre-crisis conjuncture. However, as was argued above, under the Coalition this ‘spatio-institutional fix’ has come under considerable strain. Whilst public sector job losses have been disproportionately concentrated in the ‘ex-industrial’ regions, the private sector jobs which have ‘filled in’ for these losses have generally been skewed towards low pay sectors. As such, deeply entrenched patterns of spatial divergence look set to deepen further, suggesting that the long-standing uneven development of British capitalism is likely to persist - or more likely intensify - in the future.

In the aftermath of the 2008 GFC, many commentators opined that the crisis represented a ‘critical juncture’ in the developmental trajectory of global capitalism. The nostrums which policymakers had repeated throughout the pre-crisis conjuncture – that deregulated financial markets effectively price risk and that the state’s capacity to intervene within the economy has been fundamentally compromised – were clearly undermined by the 2008 crisis. However, in the eight years since the GFC, a fundamental reordering of the global political economy has not taken place. Rather, many of the regressive distributional trends and political dynamics which were in place throughout the pre-crisis conjuncture have intensified across the advanced capitalist states. This thesis has advanced an analysis of this crucial period by focussing on Britain's emergent model of post-crisis capitalism. In so doing, it has outlined some of the main reasons why the 'opportunity' presented by the 2008 crash did not result in a shift away from Britain's finance-led growth model. As a result, British capitalism in the post-crisis conjuncture continues to embody a series of deep structural weaknesses and points of vulnerability. However, these imbalances are not merely sectoral or even distributional. They are at root *political* in the sense that they reflect deep imbalances in power relations at the heart of British society. It is this imbalance perhaps more than any other which must be addressed if Britain's social and economic model of development is to be placed onto a more egalitarian - and ultimately more sustainable - footing.

Appendix One: Net Job Creation Figures for 'High Pay' and 'Low Pay' Sectors

This appendix provides details of net job creation across the UK and select UK regions using the Standard Industrial Classiciation (SIC 2007). The data is drawn from the *Business Register and Employment Survey* (2015). For each region, the table lists the ten sectors which saw the highest levels of net job creation. It also lists the ten sectors which experienced the lowest (or negative) levels of net job creation. Each sector is then placed against the median wage paid in that sector. This provides us with a lens through which to determine the extent to which net job creation was concentrated in either 'high' or 'low' pay sectors across different regions. 'High pay' sectors are defined as above the 75th percentile of £17.72 per hour and 'low pay' sectors are defined as below the 25th percentile of £8.15 per hour. These data tables should be used in conjunction with the Figures in Section 7.4 of Chapter Seven.

United Kingdom: Net Job Creation in 'Top Ten' and 'Bottom Ten' growth sectors between 2010 and 2015, with Median Wage Rates by Sector.

Sector (SIC 2007) 2 Digit Code	Net Job Creation (2010 – 2015)	Median Wage in Sector
84 : Public administration and defence; compulsory social security	-224993	14.65
53 : Postal and courier activities	-43285	11.21
96 : Other personal service activities	-25995	8.15
42 : Civil engineering	-19560	13.19
18 : Printing and reproduction of recorded media	-19355	11.88
58 : Publishing activities	-16790	15.05

64 : Financial service activities, except insurance and pension funding	-12614	18.56
91 : Libraries, archives, museums and other cultural activities	-11748	11.67
32 : Other manufacturing	-11623	11.4
65 : Insurance, reinsurance and pension funding, except compulsory social security	-10730	16.86
71 : Architectural and engineering activities; technical testing and analysis	70261	16.25
87 : Residential care activities	75842	7.89
68 : Real estate activities	77868	12.26
52 : Warehousing and support activities for transportation	93596	13.15
82 : Office administrative, office support and other business support activities	94982	10.75
62 : Computer programming, consultancy and related activities	100972	18.1
86 : Human health activities	129884	14.27
78 : Employment activities	133900	8.65
56 : Food and beverage service activities	168064	6.67
70 : Activities of head offices; management consultancy activities	190171	14.96

Scotland: Net Job Creation in 'Top Ten' and 'Bottom Ten' growth sectors between 2010 and 2015, with Median Wage Rates by Sector.

Sector (SIC 2007) 2 Digit Code	Net Job Creation (2010 – 2015)	Median Wage in Sector
84 : Public administration and defence; compulsory social security	-9683	14.65
42 : Civil engineering	-5997	13.19
69 : Legal and accounting activities	-5662	15
01 : Crop and animal production, hunting and related service activities	-4542	8.58
58 : Publishing activities	-4197	15.05
65 : Insurance, reinsurance and pension funding, except compulsory social security	-4006	16.86
41 : Construction of buildings	-3225	13.16
94 : Activities of membership organisations	-3166	11.76
53 : Postal and courier activities	-2568	11.21
61 : Telecommunications	-2046	15.85
78 : Employment activities	6076	8.65
86 : Human health activities	6469	14.27
87 : Residential care activities	6815	7.89
47 : Retail trade, except of motor vehicles and motorcycles	7159	7.65
52 : Warehousing and support activities for transportation	8861	13.15
56 : Food and beverage service activities	8887	6.67
88 : Social work activities without accommodation	8890	9

82 : Office administrative, office support and other business support activities	11411	10.75
70 : Activities of head offices; management consultancy activities	14872	14.96
43 : Specialised construction activities	17775	12.35

North East of England: Net Job Creation in 'Top Ten' and 'Bottom Ten' growth sectors between 2010 and 2015, with Median Wage Rates by Sector.

Sector (SIC 2007) 2 Digit Code	**Net Job Creation (2010 – 2015)**	**Median Wage in Sector**
84 : Public administration and defence; compulsory social security	-17357	14.65
45 : Wholesale and retail trade and repair of motor vehicles and motorcycles	-12245	9.87
41 : Construction of buildings	-5963	13.16
16 : Manufacture of wood and of products of wood and cork, except furniture;manufacture of articles of straw and plaiting materials	-4421	9.98
61 : Telecommunications	-3946	15.85
96 : Other personal service activities	-3805	8.15
49 : Land transport and transport via pipelines	-3699	11.23
80 : Security and investigation activities	-3328	8.49
26 : Manufacture of computer, electronic	-2927	15.41

and optical products		
69 : Legal and accounting activities	-2882	15
56 : Food and beverage service activities	3387	6.67
82 : Office administrative, office support and other business support activities	3816	10.75
25 : Manufacture of fabricated metal products, except machinery and equipment	3992	11.73
46 : Wholesale trade, except of motor vehicles and motorcycles	4654	11.41
70 : Activities of head offices; management consultancy activities	4906	14.96
78 : Employment activities	5375	8.65
52 : Warehousing and support activities for transportation	6441	13.15
87 : Residential care activities	7083	7.89
47 : Retail trade, except of motor vehicles and motorcycles	16719	7.65
86 : Human health activities	18050	14.27

South East of England: Net Job Creation in 'Top Ten' and 'Bottom Ten' growth sectors between 2010 and 2015, with Median Wage Rates by Sector.

Sector (SIC 2007) 2 Digit Code	**Net Job Creation (2010 – 2015)**	**Median Wage in**

		Sector
84 : Public administration and defence; compulsory social security	-32548	14.65
43 : Specialised construction activities	-14620	12.35
42 : Civil engineering	-12120	13.19
88 : Social work activities without accommodation	-12081	9
28 : Manufacture of machinery and equipment n.e.c.	-10887	13.83
25 : Manufacture of fabricated metal products, except machinery and equipment	-9345	11.73
18 : Printing and reproduction of recorded media	-7030	11.88
94 : Activities of membership organisations	-6827	11.76
38 : Waste collection, treatment and disposal activities; materials recovery	-6599	10.76
69 : Legal and accounting activities	-6450	15
68 : Real estate activities	10478	12.26
49 : Land transport and transport via pipelines	11174	11.23
62 : Computer programming, consultancy and related activities	13087	18.1
52 : Warehousing and support activities for transportation	14668	13.15
41 : Construction of buildings	15813	13.16

71 : Architectural and engineering activities; technical testing and analysis	22739	16.25
70 : Activities of head offices; management consultancy activities	24322	14.96
56 : Food and beverage service activities	27362	6.67
82 : Office administrative, office support and other business support activities	29406	10.75

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